

ANALISA SAHAM INDONESIA

August 31, 2020

- * **The JCI trading range: 5,300pt - 5,425pt (Friday close: 5,347pt)**
- * **Wall Street closed higher by close to 1% on data release and monetary policy momentum**
- * **The JCI is expected to trend higher amid cautious for Covid-19 spread handling**

Morning,

The Jakarta Composite Index (JCI) today (31/8) is expected to be within the range of 5,300pt – 5,425pt by support of stable USDIDR and oil close. Meanwhile, last Friday (28/8) in Wall Street the DJIA ended higher by 162 points or 0.6% at 28,654pt, while the S&P500 and the Nasdaq both closed higher by 0.7% and 0.6%, respectively. With the last close, the DJIA was up by 0.4% for 2020 mainly driven by consumers' Walmart and Coca-Cola, For the S&P500, Tech and energy were the best-performing sectors. On the data front, The United States (US) spending rose 1.9% in July, topping a Reuters forecast of a 1.5% gain. Meanwhile, Personal income was also stronger than expected, rising 0.4% while economists had forecast a drop of 0.2%.

Indonesia consumer sector

ULTJ 1H20 Review: moderately hit by a quarter of limited lock-down in the 2Q20

Ultrajaya Milk Industry & Trading Company (ULTJ) reported financial performances for the first six month ended June this year (1H20) with net profit of IDR555.0bn as compared to IDR508.6bn in the same period last year (1H19), or representing an annual increase of 9.1%. Bottom line during the 1H20 was backed by an increase of net sales value by 1.6% YoY to IDR3.0tr, and by tamed cost of goods sold the led to higher gross margins to 37.4% as compared to 36.8% in the 1H19 (1Q20: 38.9%, 2Q20: 35.7%).

Operating margins during the 1H20 was recorded at 23.8% vs. 20.9% in the 1H19 (2Q20: 10.9%, 1Q20: 35%). During the 1Q20, ULTJ recorded gain on of sale of foreign exchange of IDR176bn (1H20: IDR45.5bn, 1H19: loss of IDR24.2bn) which propelled operating margin to 35%.

Excluding this account in the 1Q20, operating margins would have been recorded at 24.1%.

Overall, net profit margin during the 1H20 was recorded at 18.4% vs. 17.1% in the 1H19. ULTJ financials was overall being supported by its net-cash position both in the 1H and 1Q this year.

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2Q20 picture

During the 2Q20, net sales value was recorded at IDR1.4 tr, or representing 9.1% YoY decline as compared to the same quarter last year (2Q19). At the other end, compared to the preceding quarter of 1Q20, net sales value declined by 13.0%. Limited lock-down has hurt the company's sales through lower volume, especially along the closing of all schools, we reckon.

Valuations

At yesterday closing price of IDR1,805, ULTJ is trading at 18.9 times this year's annualized earnings, which is a substantial discount both to that of consumer sector and the general market of 33 times trailing earnings.

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, WTI price closed at USD42.9 or lower by 0.2% in Friday. Meanwhile the USDIDR closed at IDR14.702 vs. IDR14.714 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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