

Indonesia Market Strategy

2023 strategy: Brace for a turning point

November 11, 2022

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Indonesia Market Strategy

Brace for a turning point



Commodity exports still solid

In the wake of the war in Ukraine, commodity exports are booming for longer than forecast. As coal prices would slip, exports are anticipated to peak in 1Q23 and shrink. However, unless the war comes to a complete end, alternative commodities, especially palm oil, would get pricier, protecting the country's exports against downside.

Flagging domestic consumption and gov't spending

While the exports lose steam after driving the economy, government spending will unlikely be enough to offset lagging domestic consumption unlike during the pandemic. Domestic consumption would stagnate due to rising inflation and Bank Indonesia's stubborn tightening. The grace period for a fiscal deficit expires at end-2022 while the current government is losing popularity ahead of the 2024 general election. As such, the government may not push to stimulate the economy.

JCI to shift gear, not change direction

The Jakarta Composite Index (JCI) will touch a peak in 1H23 and then rise at a slower pace in 2H23. With the banks sector set to take over as the market's driver as coal prices turn downward, stocks will deliver a mixed performance while investors look toward the 2024 presidential and general elections as candidates register for the polls in October 2023. Compared to the NP among emerging markets that is expected to shrink for the second straight year, Indonesia should make another 3.8% yoy gain in 2023. We suggest a selective investment approach in light of rising oil prices and interest rate hikes.

Issue: A stumbling block to ambitious EV hub

As the world's largest nickel producer and with the largest deposits, Indonesia is aiming to become a dominant manufacturing base for EVs by banning ore exports since 2020. To recover nickel from nickel laterite ore, hydrometallurgical and high-pressure acid leaching processes are applied, and this requires investment in ore smelting facilities. With ratification of the Inflation Reduction Act (IRA), the US is looking to build a resilient supply chain where it will play a central role. But Indonesia does not have a free-trade agreement with the US, and many smelters receive investment from China. Three scenarios may come up for Indonesia to tackle the IRA issue.

I. 2023 investment strategy

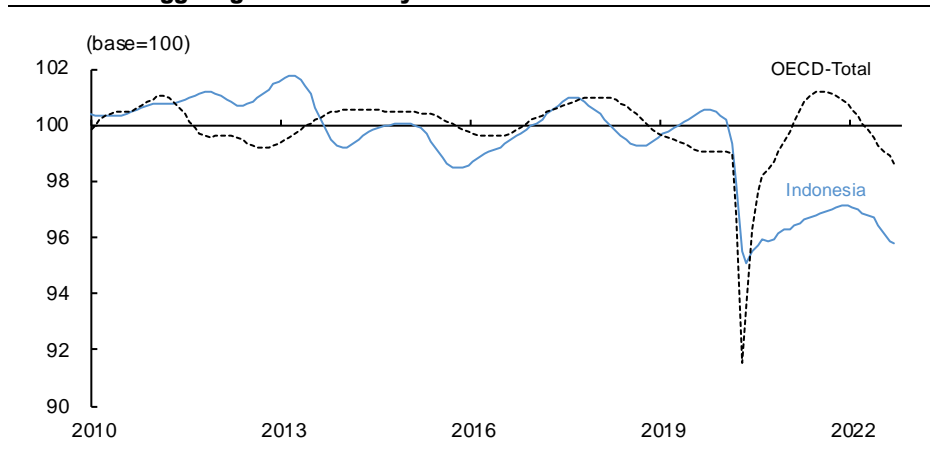
1. Commodity exports still solid

Hopes must be trimmed a bit for Indonesia in 2023. The environment at home and abroad is not favorable for the country's fundamentals. Things would not be as bad as in 2020-2021 but major economic engines (e.g., exports, domestic consumption) will likely hit a peak and slow.

Fed's tightening and strong USD may be a drag in 2023

On the macro side, the Fed's stubborn tightening and the strong USD are worrisome. As confirmed by the continued giant steps (+75bp), the elevated dot plot and Jerome Powell's comments during FOMC news conferences, the Fed keeps the fight against inflation as its top priority. Considering that it takes one year for monetary action to affect the real economy, global demand will likely recede as a whole in 2023. The recovery pace from the pandemic fallout varies by country. Narrowing bond yields with the US and the strong USD would hurt emerging economies such as Indonesia.

Figure 1. OECD composite leading indicator: Indonesia also retreats hurt by sluggish global economy



Source: OECD, Korea Investment & Securities

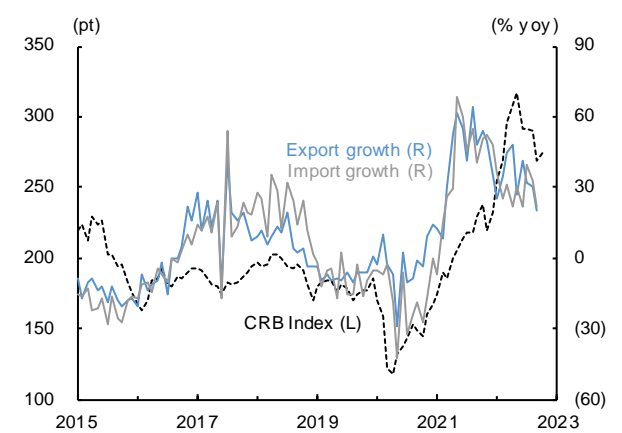
Shaky supply network gives support to commodities against downside

Commodity exports started to flourish in 2H21 and are still booming in the wake of the war in Ukraine. But the upturn has slowed. However, with the supply network being disrupted due to the persistent war, commodity prices have greater support against downside. In particular, prices keep soaring for coal and palm oil that are the country's major export items.

As heating demand diminishes from 2Q23, coal prices would turn down

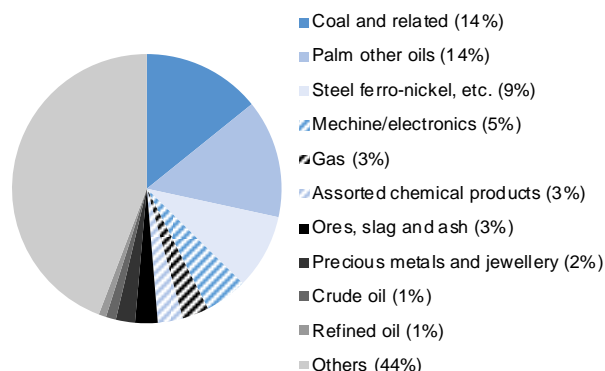
Indonesia is among the world's top three coal exporters along with Australia and Russia. Thanks to Russia prohibited from exporting to Europe and the US, Indonesian exports have spiked. Furthermore, given that Russia has cut off natural gas supply, European countries worried about soaring demand in the winter heating season are racing to stockpile coal. Furthermore, revived global economic activities also push up demand to fuel thermal power plants. From 2H23, coal demand for heating would recede, sending prices lower.

Figure 2. Export/import growth slowed as commodities got cheaper



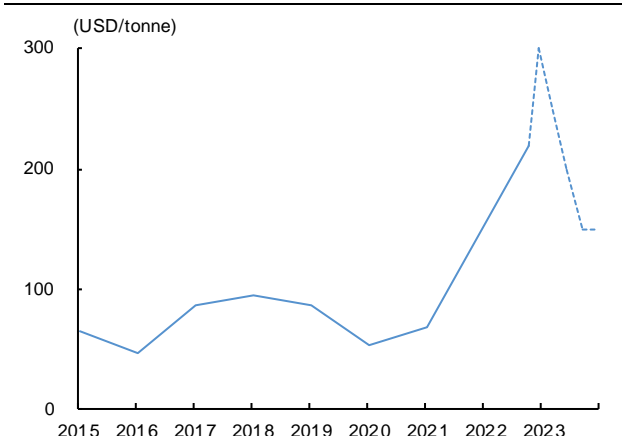
Source: Bloomberg, Korea Investment & Securities

Figure 3. Indonesia's major export items: Coal and palm oil



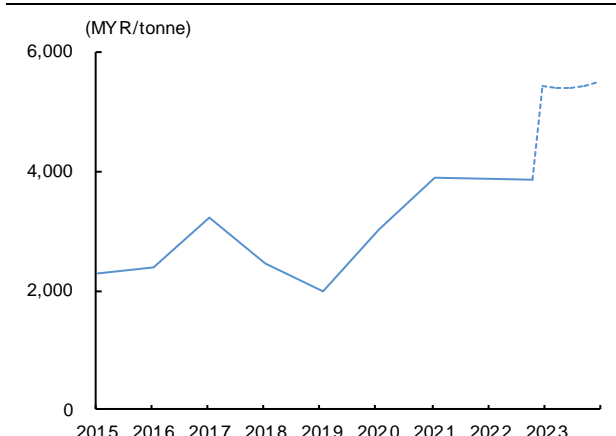
Note: 2021 full-year
Source: BPS, Korea Investment & Securities

Figure 4. Coal price to peak in 1Q23 and drop



Note: Dotted line is post-4Q22 estimate
Source: Bloomberg, Korea Investment & Securities

Figure 5. Palm oil to stay on the upturn in 2023



Note: Dotted line is post-4Q22 estimate
Source: Bloomberg, Korea Investment & Securities

Palm oil demand to keep humming amid a shortage of sunflower oil

Indonesia produces 59% of the world's palm oil. In 1H22, canola oil (Canada) and soybean oil (Brazil, Argentina) stagnated due to poor harvests while sunflower oil supply was disrupted by the war (Russia makes 53% of the world's sunflower oil). As such, the price stays lofty for palm oil. With the international price significantly outstripping domestic, the domestic palm oil supply experienced a severe crunch, prompting the government to ban exports of all palm oil items during April-May. In 2023, things will likely remain unchanged. The Russia-Ukraine war would persist while sunflower oil supply remains short. As Russia decides to suspend its involvement in the Black Sea Grain Initiative, agricultural items are again turning pricier. As an alternative to sunflower oil, palm oil exports would stay solid in 2023.

Due to the war, strong demand for palm oil will protect exports against downside

Dragged down by a tough comparison base from 2022 along with cheaper coal, exports are anticipated to peak in 1Q23 and then shrink. However, unless the war comes to a complete end, alternative commodities, especially palm oil, would get pricier, protecting the country's exports against downside.

2. Flagging domestic consumption and gov't spending

While commodity exports lose steam after driving the economy until end-2022, the outlook is also grim for domestic consumption and government spending in light of rising inflation, the central bank's tightening and the government losing popularity ahead of the 2024 general election. The government aims to achieve 5.3% GDP growth in 2023.

Table 1. 2023 Indonesian government's goal

(%, IDR/USD, USD/bbl)

	2023 target	2022 gov't estimate
GDP growth	5.3	5.1-5.4
Inflation	3.6	4.0-4.8
10yr government bond yield	7.9	6.85-8.42
IDR/USD	14,800	14,500-14,900
Indonesian oil price	90	95-105

Source: Indonesia Ministry of Finance (MoF), Korea Investment & Securities

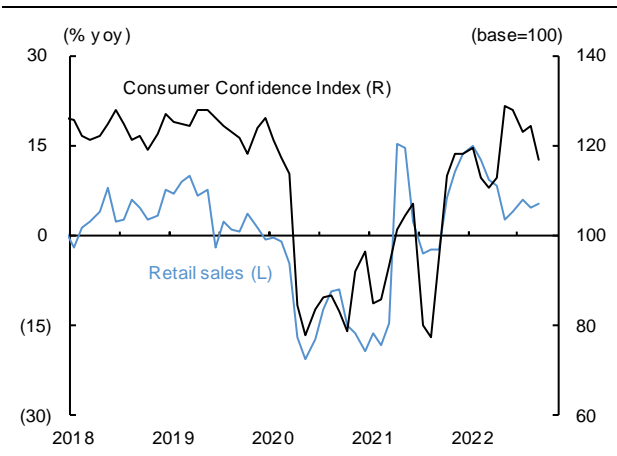
Inflationary pressure is rising fueled by lifted retail gasoline prices and expensive imports (stemming from the strong USD)

Assisted by eased virus controls and unleashed pent-up demand, retail sales have returned to normal. However, as retail prices for gasoline were lifted in September and the USD appreciates, inflationary pressure is mounting in the country. The October CPI climbed 5.7% yoy. The upturn slowed mom (+6.0% yoy in September) but it is too early to talk about a downtrend forming. Costly gasoline is pushing up other corners of the economy as well such as transportation. Inflation is pegged to peak in 1Q23 and then stabilize downward.

With BI sticking to its tightening since August, the Consumer Confidence Index turned down; A drag on consumer spending

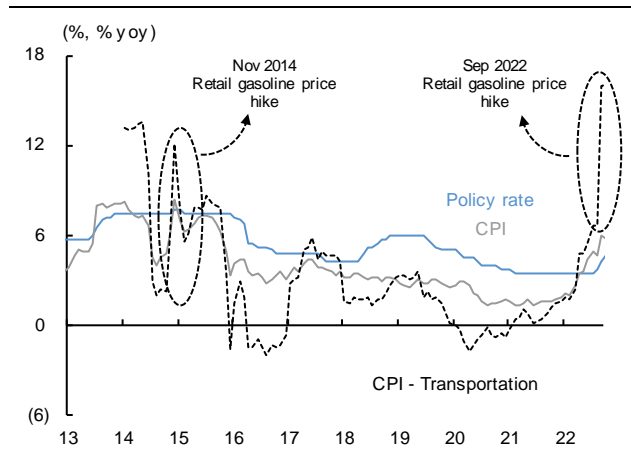
During August-September 2022, Bank Indonesia lifted the benchmark rate to keep the gap with the US from narrowing. And since October, the central bank's focus has been on curbing inflation expectations. It will likely stick to tightening through 1H23 to keep up with the Fed. With Bank Indonesia lifting the rate by 50bp every month since September, the Consumer Confidence Index has turned down. Dragged down by stubborn inflation and fatigue from monetary tightening, disposable income per capita is pegged to creep up 0.6% yoy in 2023. Domestic consumption is unlikely to be robust in 2023.

Figure 6. Consumption normalized in 2022 thanks to eased virus controls; But consumer confidence dropped due to tightening



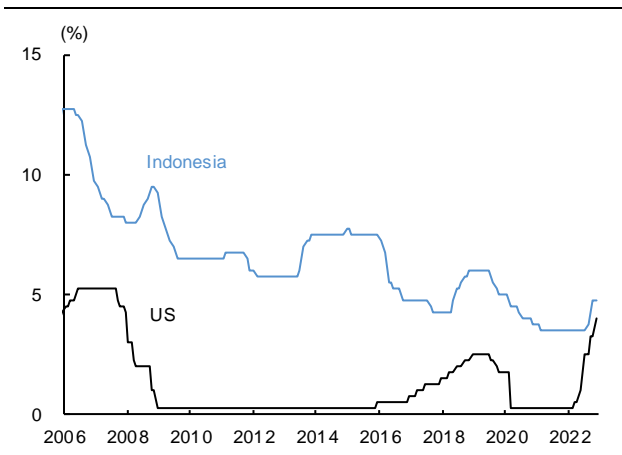
Source: CEIC, Korea Investment & Securities

Figure 7. Costly gasoline pushes up prices such as transportation



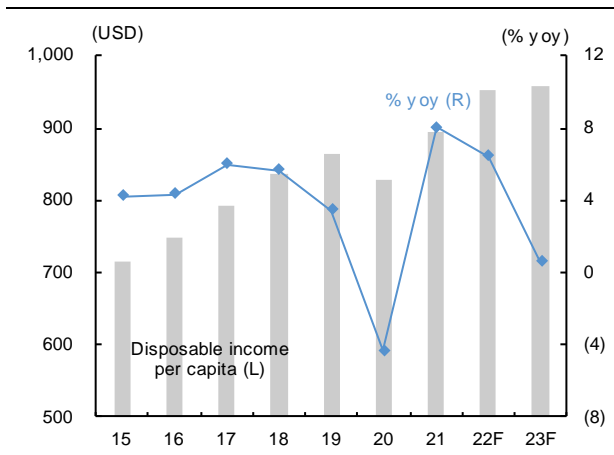
Source: Bloomberg, Korea Investment & Securities

Figure 8. Narrowing gap with the US rate; Rate hike is inevitable



Source: Bloomberg, Korea Investment & Securities

Figure 9. Disposable income to crawl up in 2023 due to rising inflation and tightening



Source: Oxford Economics, Korea Investment & Securities

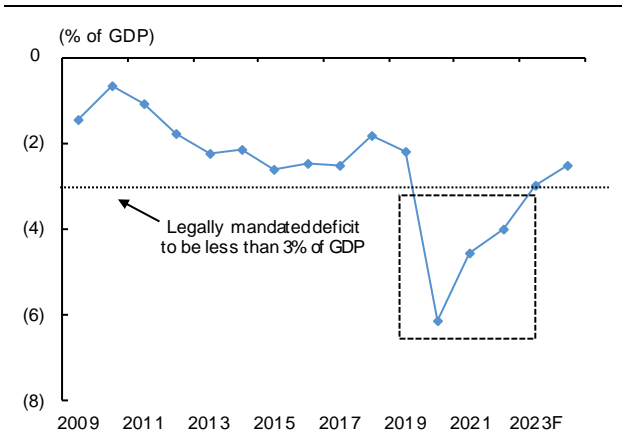
Deficit limit grace period expires at end-2022; Aggressive economic stimulus unlikely

Even government spending is unlikely to fill the void left by domestic consumption as seen during the pandemic in 2020. The suspension of the legal ceiling on the country's fiscal deficit will expire at end-2022. After enduring a currency crisis, Indonesia legally mandated that the fiscal deficit must be less than 3% of GDP but the cap was temporarily waived to deal with the pandemic. As the government must return it to below 3% from 2023, it is unlikely to introduce aggressive economic stimulus measures and investment plans.

Political doubts ahead of 2014 elections to curb investment

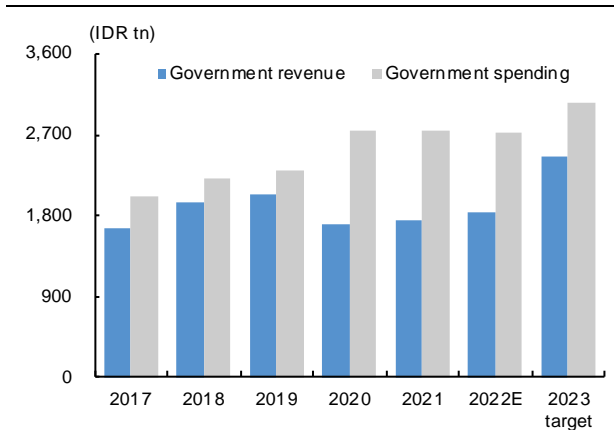
Major political events are on the horizon. Indonesia will hold presidential and general elections in February 2024 followed by regional elections in November. The race will begin with candidates registering for the presidency and vice-presidency in October 2023. Indonesia's constitution mandates that a president can serve a maximum of two, five-year terms. Thus, incumbent President Joko Widodo now in his second term (2014, 2019) cannot run in the 2024 presidential election despite having a high approval rating. This means Indonesian voters must elect a new president while a ruling party change is possible as well. As political uncertainties escalate nationwide from 2H23, investment growth is expected to slow compared to normal years.

Figure 10. Fiscal deficit must return to less than 3% of GDP



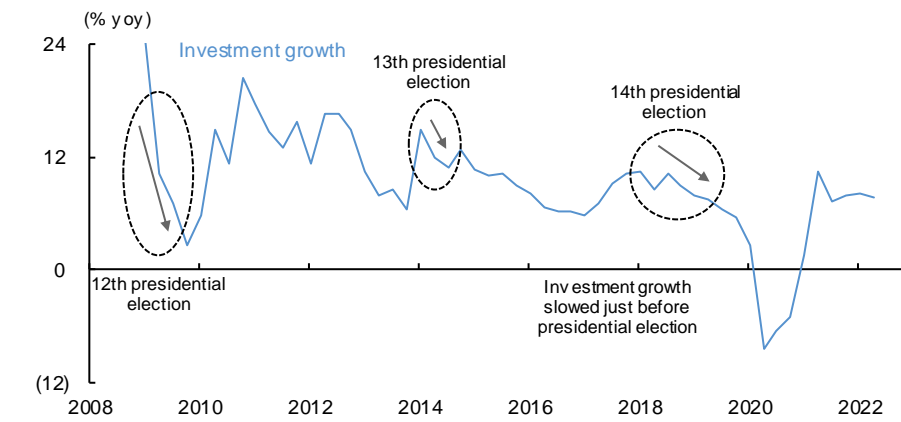
Source: Bloomberg, Korea Investment & Securities

Figure 11. Government revenue and spending by year



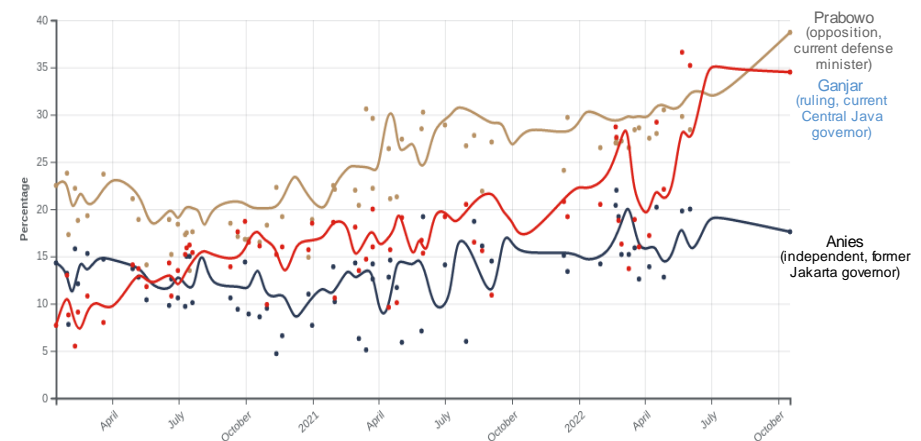
Source: Indonesia Ministry of Finance (MoF), Korea Investment & Securities

Figure 12. Investment growth to slow as political doubts mount ahead of elections



Source: Bloomberg, Korea Investment & Securities

Figure 13. Opinion polls of three frontrunners for the Indonesian presidency



Source: Wikipedia, Korea Investment & Securities

3. Shedding weak link image with a stable IDR

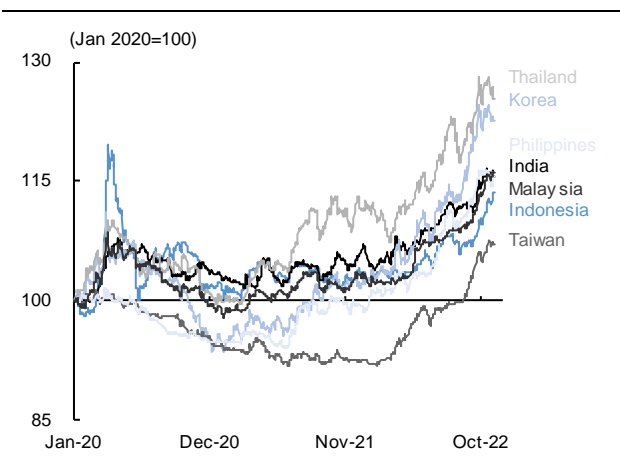
IDR viewed as a weak link down only 10% against the USD this year

Indonesia along with Korea and Thailand were the countries that received bailout packages from the International Monetary Fund (IMF) during the Asian financial crisis in 1997. As Indonesia features an economic structure that hinges on commodity prices, the country has consistently faced the problem of having twin deficits (current account and fiscal deficits). Whenever advanced countries such as the US raised their benchmark interest rates or a global economic crisis loomed, the IDR was labeled as a weak link. But in 2022, the currency held its ground in the face of a triple-threat of high inflation, high FX rates and high interest rates around the globe.

IDR staying firm backed by trade surplus and low foreign presence in the bond market

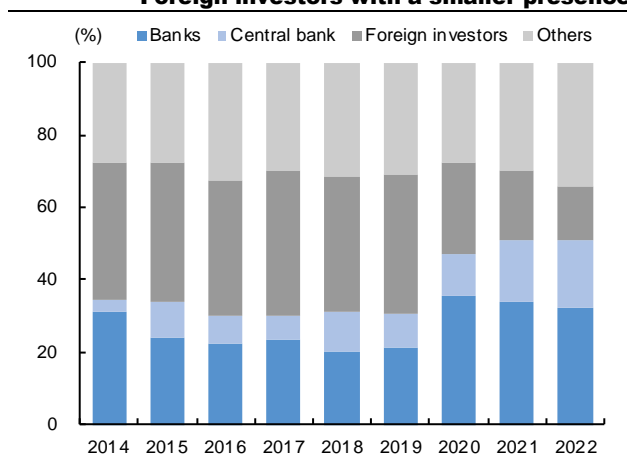
With the IDR/USD up only 10.4% YTD, the IDR has been more stable than other emerging market currencies. Thanks to robust commodity exports, Indonesia has managed to record a trade surplus for 29 months in a row and built up plenty of foreign currency reserves, which the country has been using to keep the IDR's value from falling too steeply. And given that foreign investors have already exited the bond market due to the fallout from the pandemic, these participants who are sensitive to the interest rate gap with the US now have a lesser presence than in normal years. Even with mounting upward pressure on interest rates and FX rates in 2023, the IDR should stay relatively firm.

Figure 14. IDR fared better than other currencies



Source: Bloomberg, Korea Investment & Securities

Figure 15. Gov't bond holdings by investor group: Foreign investors with a smaller presence



Source: Bank of Indonesia, Korea Investment & Securities

4. JCI to shift gear, not change direction

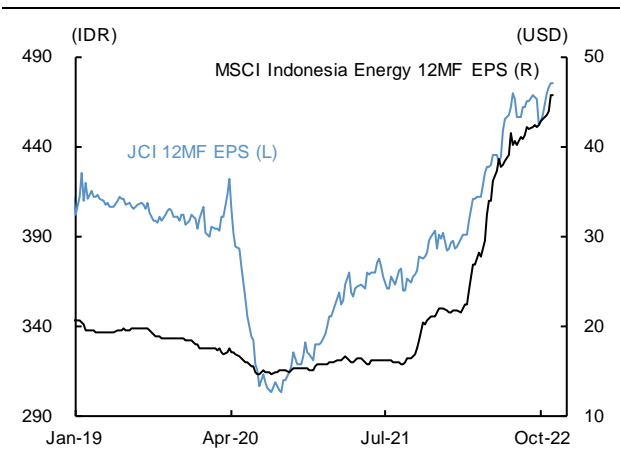
JCI to peak in 1H23 and rise more slowly in 2H23; Brief pullback anticipated as market driver is replaced

Market driver to switch from energy to banks on coal prices stabilizing lower and interest rates going up

While the Indonesian stock market has delivered a stellar performance this year, there is a need lower expectations to some degree in 2023. The JCI will likely touch a peak in 1H23 and then rise at a slower pace in 2H23. With a new sector taking over as the market's driver as coal prices turn downward, the index should retreat while investors turn their eyes toward political events in 2H23.

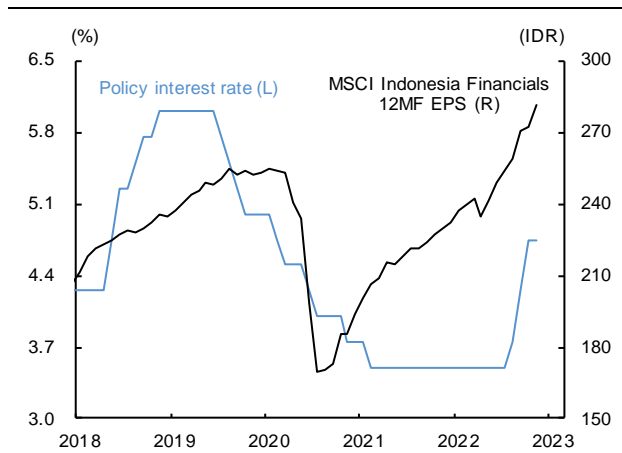
As the price of coal, a core export item, is forecast to stabilize lower after peaking in 1Q23, profit upturn will likely decelerate within the energy sector that had been the driving force behind the JCI's rally. While this sector accounts for 9.4% of the total market cap, if those aside from energy can deliver better earnings, it would help buttress the bottom-end of the index. And with Bank Indonesia swiftly maneuvering its monetary policy to follow in the footsteps of the US Fed, the banking sector (33.7% of total market cap) for which the loan-deposit interest margin would widen is expected to take over as the market's driver.

Figure 16. Profit upturn led by energy incl. coal miners to slow after peaking in 1Q23



Source: Thomson Reuters, Korea Investment & Securities

Figure 17. EPS to spike at financials incl. banks on wider loan-deposit interest margin



Source: Thomson Reuters, Bloomberg, Korea Investment & Securities

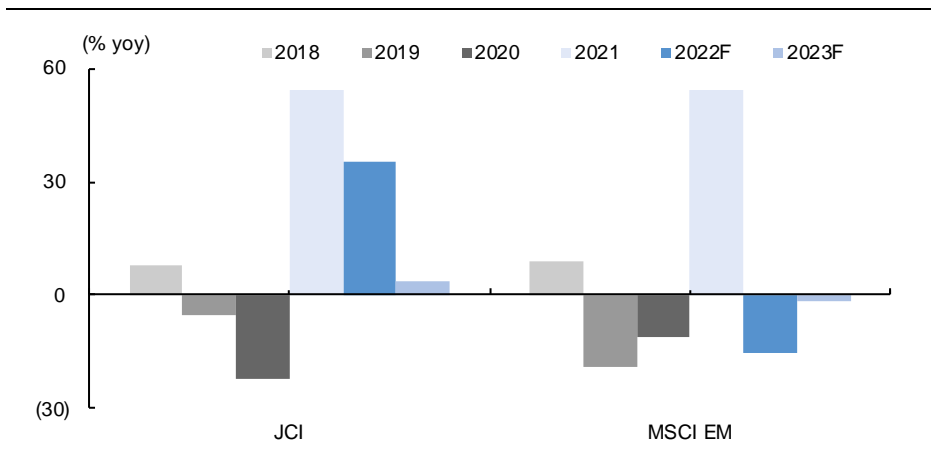
Indonesia's NP to rise 3.8% yoy whereas emerging markets shrink for a second straight year

A selective approach given rising oil prices and interest rate hikes

Due to a tough comparison base created by remarkable profit growth in 2022, Indonesia's NP is projected to climb only 3.8% yoy in 2023 (Bloomberg consensus, EPS up 5.3% yoy for KISI Universe companies). In contrast to emerging markets where NP is expected to shrink for the second straight year, Indonesia would continue to appeal to investors in 2023. The JCI is forecast to reach the 7,600pt plateau in 2023.

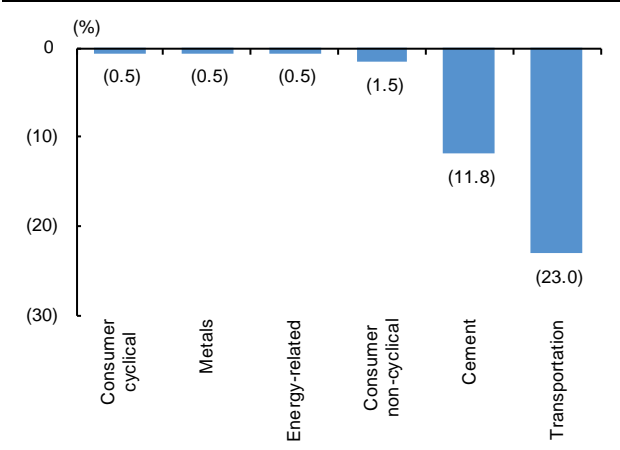
As oil prices and interest rates would continue to go up, we suggest a selective investment approach rather than focusing on the broader market. A conservative stance is warranted for transportation and cement due to heavier input costs stemming from elevated oil prices. Rising interest rates will inevitably dent the infrastructure, telecom and real estate sectors given their big leverage and current liabilities. We highlight 1) some coal miners that could still get a boost from coal contract volume, 2) major banks with a heavy exposure to corporate lending and 3) consumer staples poised for a profit upturn as exports resume and palm oil prices stabilize lower.

Figure 18. JCI NP to rise 3.8% yoy in 2023



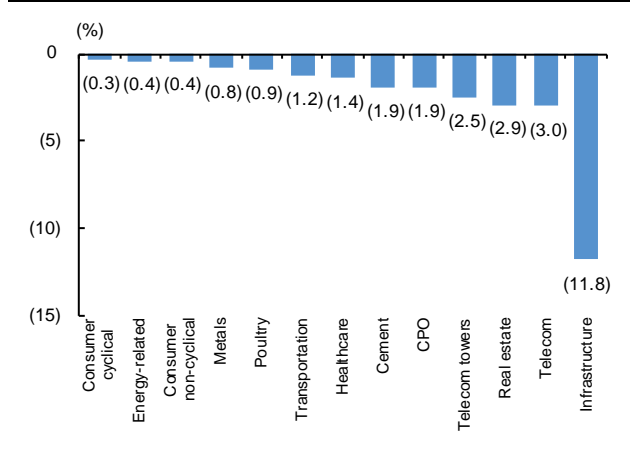
Source: Bloomberg, Korea Investment & Securities

Figure 19. Profit sensitivity to rising oil price: Transportation and cement could erode on heavy input costs



Source: KISI, Korea Investment & Securities

Figure 20. Profit sensitivity to rising interest rate: Big leverage and current liabilities to dent real estate, telecom and infrastructure



Source: KISI, Korea Investment & Securities

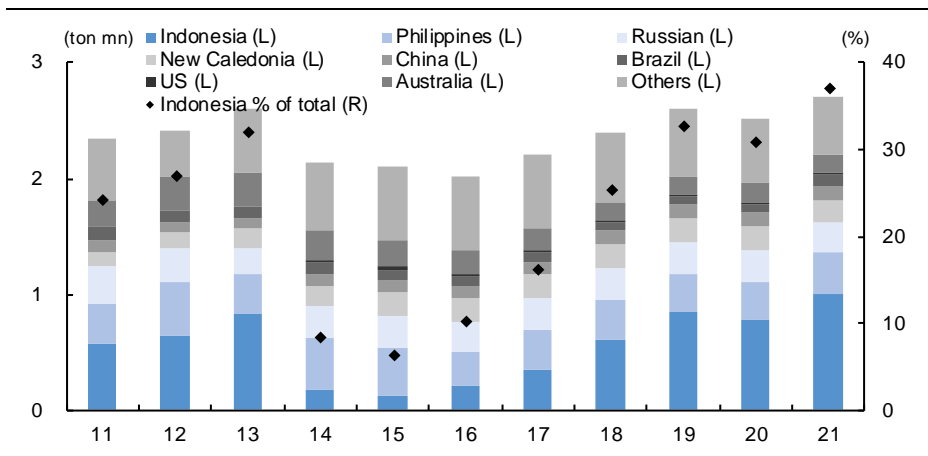
II. 2023 issues

1. Ambitious EV hub: Nickel ore export ban as a start

Indonesia banned ore exports to become a dominant base for EV manufacture

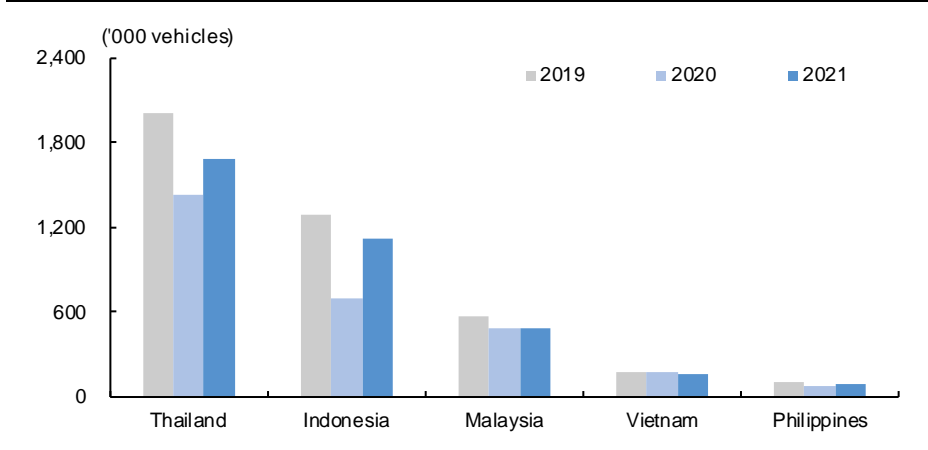
Nickel is a raw material for stainless steel and a core material for EV batteries. Indonesia is responsible for 37% of the world's nickel production. Indonesia and Australia each have 22% of the world's recoverable reserves. As such, Indonesia is the world's first by amount of nickel deposits and production volume. The Indonesian government introduced a ban on the export of unprocessed ore to reduce the economy's dependence on raw material exports and nurture the manufacturing sector. The government also passed the Omnibus Law on jobs creation in 2020 as part of the drive to attract more foreign investment. The nickel ore export ban in 2020 was the first step toward weaponizing resources. Indonesia, which served as an automotive-assembling country in Southeast Asia along with Thailand, is now seeking to become a dominant manufacturing base for EVs by taking advantage of its nickel resources.

Figure 21. Indonesia accounts for 37% of global nickel production



Source: USGS (2021), Korea Investment & Securities

Figure 22. Annual automobile assembly by Southeast Asian country: Indonesia ranks second after Thailand



Source: CEIC, Korea Investment & Securities

2. Obstacles to the ambition for manufacturing powerhouse: US-China conflicts and the IRA

Additional investment in smelters is essential to make EV batteries

Indonesia treats its nickel laterite ore by applying hydrometallurgical and high-pressure acid leaching processes to produce Class 1 (99.8% purity) nickel powder or mixed hydroxide precipitate (MHP) that are used for battery-grade nickel(II) sulfate production. As of June 2021, 27 dry smelters and two hydro-smelters operate in Indonesia. Additional investment in smelters is essential for EV battery production.

Global companies ramp up investment in nickel smelters in Indonesia

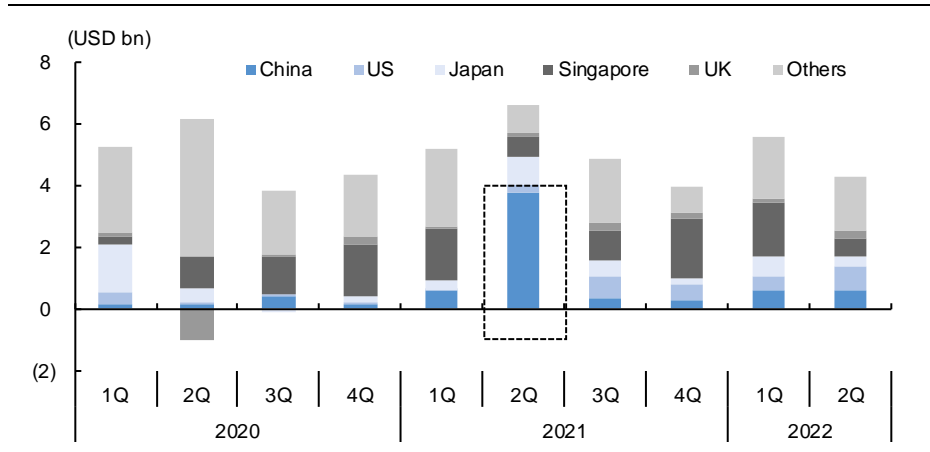
After the nickel ore export ban, Hyundai Motor-LG Energy Solution announced a plan to build a battery cell JV in Indonesia. Several other companies showed their intent to build battery plants in Indonesia or invest in the country's smelters, and among the names are Sumitomo Metal Mining (Japan), Foxconn (Taiwan), Transasia (Taiwan), Tsingshan (China), Jiangsu Delong (China) and GEM (China). The ongoing paradigm shift from conventional internal combustion vehicles to EVs provides a boost to the nickel-rich country's ambition to become an EV manufacturing powerhouse.

Table 2. Ongoing projects to produce intermediate materials and nickel(II) sulfate

Producer	Region	Product	Investor	Scheduled production volume (ktpy)
PT Youshan Nickel Indonesia (Zhejiang Huayou/Tsingshan)	Weda Bay	Nickel matte	China	34.0
PT Huake Nickel (Zhejiang Huayou/Tsingshan)	Weda Bay	Nickel matte	China	45.0
PT QMB New Energy Materials (GEM/Tsingshan)	Morowali	MHP	China	50.0
PT QMB New Energy Materials (GEM/Tsingshan)	Morowali	Nickel(II) sulfate	China	33.0
PT Huaqi (Huayou/CMOC/Tsingshan)	Morowali	MHP	China	60.0
PT Aquila Cobalt Nickel (Solway)	Morowali	MHP	Switzerland	30.0
PT Halmahera Persada Lygend (Harita/Ningbo Lygend)	Obi Island	MHP	China	37.0
PT Halmahera Persada Lygend (Harita/Ningbo Lygend)	Obi Island	MHP	China	18.5
PT Halmahera Persada Lygend (Harita/Ningbo Lygend)	Obi Island	Nickel(II) sulfate	China	35.0
Jinchuan WP	Obi Island	MHP	China	20.0
Jinchuan WP	Obi Island	Nickel(II) sulfate	China	20.0

Source: European Commission (2021), Korea Investment & Securities

Figure 23. China's greater FDI in Indonesia in 2021 after the nickel ore export ban at end-2020



Source: CEIC, Korea Investment & Securities

MSP and IRA erect stumbling blocks

But Indonesia has bumped against stumbling blocks amid the US' moves to build a resilient supply chain where it will play a central role. Specifically, the US formed a global alliance called the Mineral Security Partnership (MSP) and passed the IRA.

US' exclusionary EV tax credit scheme: Three possible scenarios

Under the IRA, the USD7,500 tax credit is split into equal halves of USD3,750. First, an EV qualifies for a USD3,750 tax credit if at least 40% of the battery's critical minerals were extracted or processed in the US or its free-trade partners starting from 2023 and the minimum percentage of critical mineral goes up to 80% in 2027. To qualify for the other USD3,750, at least 50% of battery components must be manufactured or assembled in North America starting from 2023, and 100% in 2028 and onward. Meanwhile, Indonesia is not a free-trade partner of the US and the country's many nickel smelters receive investment from China. Thus, EVs assembled in Indonesia do not qualify for the tax credit. Three scenarios may come up for Indonesia to tackle the IRA issue.

Stepping up cooperation with the US through IPEF

1) Use the Indo-Pacific Economic Framework

Indonesia is one of 14 members of the Indo-Pacific Economic Framework for Prosperity (IPEF) established in May 2022. The IPEF is not a free-trade agreement that requires parliamentary ratification. But the IPEF is the US-led initiative focused on supply chain stability, trade, zero-carbon emissions and clean energy and infrastructure as its main agenda. The US may use the IPEF as a way to dodge the IRA if it wants access to a wide range of commodities in Indonesia.

If the term "place of origin" pertains to smelting, not mining, the IRA could be an opportunity

2) IRA's conditions of "origin" need monitoring: FDI from US' free-trade partners could be a solution

The detailed enforcement ordinance of the IRA is not yet available. If the term "place of origin" pertains to smelting, not mining, the IRA could present an opportunity. While China is a main foreign investor in Indonesia's smelters, it could avoid the IRA's challenge by receiving investment from the US' free-trade partners, such as Korea and Japan.

Targeting the ASEAN EV market

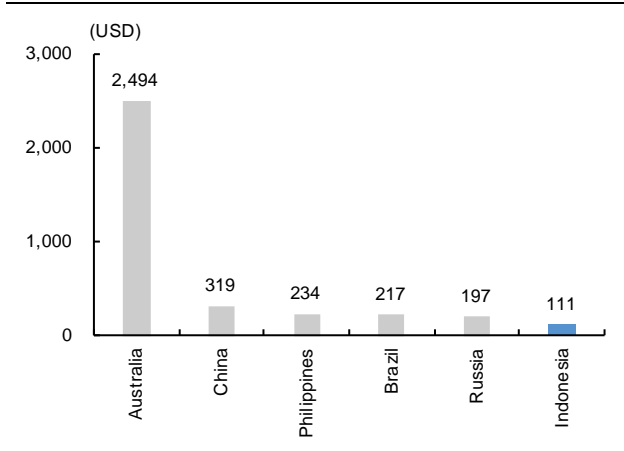
3) Focus on sales in ASEAN region

EVs using Indonesia's nickel could target its neighboring countries for sale. Although US-bound exports would be disadvantages, global automakers could offer EVs in Indonesia or the ASEAN market. Under the ASEAN FTA's rules of origin, at least 40% local content satisfies the condition for duty-free exports. Furthermore, the Indonesian government provides benefits, such as tariff exemptions on parts imports and luxury tax (15%), to global EV makers assembling vehicles in Indonesia and using batteries made in the country. Although still small compared to China and the US, the EV market in Southeast Asia is projected to grow to USD2.67bn in 2027 (Figure 25). Global EV makers can step up their access to Southeast Asia's EV market through Indonesia.

Cheap labor and abundant deposits make Indonesian nickel attractive

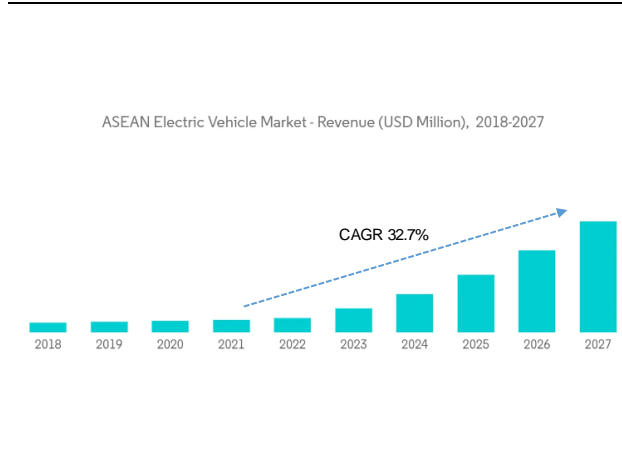
Indonesia has the world's largest nickel deposits, and the labor costs for smelting and processing are the lowest among countries with deposits. In the mid to long-term, the world will inevitably rely on Indonesia's nickel. The pros and cons could become clearer when more crucial details of the IRA are made public. Among the Indonesian nickel-related companies listed on the Jakarta Exchange are Vale Indonesia (INCO IJ) and Aneka Tambang (ANTM IJ).

Figure 24. Indonesia's labor costs are the lowest among countries with nickel deposits



Note: Monthly minimum wage
Source: Countryeconomy, Korea Investment & Securities

Figure 25. Southeast Asia's EV market size at USD2.67bn in 2027



Source: Mordor Intelligence, Korea Investment & Securities



Company analysis

Bank Negara Indonesia (BBNI)

Bank Rakyat Indonesia (BBRI)

Indo Tambangraya Megah (ITMG)

Mayora Indah (MYOR)

United Tractors (UNTR)

III. Company analysis

Bank Negara Indonesia (BBNI)

Stock price (Oct 28, IDR)	9,325
Market cap (IDR bn)	172,500
Shares outstanding (mn)	18,649
52W High/Low (IDR)	9,900/6,550
6M avg. daily turnover (IDR bn)	281.5
Free float (%)	40.0
Major shareholders (%)	
Gov't of Indonesia	60.0

Yr to	Oper. income	PPOP	NP	EPS	% chg	BPS	PE	PB	ROA	ROE	DY
Dec	(IDR bn)	(IDR bn)	(IDR bn)	(IDR)	(yoy)	(IDR)	(x)	(x)	(%)	(%)	(%)
2020A	61,503	27,822	3,280	176	(78.7)	6,053	50.3	1.6	0.4	2.9	2.3
2021A	55,913	30,848	10,899	584	232.2	6,653	16.0	1.4	1.2	9.3	0.5
2022F	58,006	32,353	16,039	860	47.2	7,304	10.8	1.3	1.6	12.3	1.7

Source: Bloomberg, Korea Investment & Securities

Light valuation for a big state-run bank

Performance

	1M	6M	12M
Absolute (%)	3.9	(1.1)	34.5
Relative to JCI (%p)	3.1	2.7	21.3

Stock price



One of the big SOE banks with good fundamentals

BBNI was established in Indonesia as a central bank on July 5, 1946 and became a state-owned bank in 1968. BBNI was the first state-run bank to list on the Jakarta Stock Exchange. BBNI has an extensive network of more than 2,000 branches including overseas offices.

New management firmly established to grow forward

BBNI's new management has settled in nicely after a wholesale change in 2020. The team has managed to beef-up its capital adequacy ratio (CAR) and navigated through the Covid pandemic to emerge with much better fundamentals, on par with other big state-run banks such as BBRI and BMRI.

Upside from Syariah consolidation and overseas expansion

The consolidation of Bank Syariah Mandiri, BRI Syariah and BNI Syariah into one entity Bank Syariah Indonesia (BRIS), of which BBNI owns 24.8%, provides further upside for cost efficiencies and synergies. In addition, BBNI is now being earmarked as a state-run bank with big overseas expansion plans.

Undemanding valuation

We like big BBNI for its huge potential earnings CAGR of more than 30% between FY21 and FY24, outpacing BBKA and other big SOE banks in our coverage. BBNI's valuation at just 1.3x FY22F PB remains undemanding.

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Balance sheet

(IDR bn)

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Cash	17,324	13,684	27,352	29,403	31,608
Placement with central bank	35,066	48,682	54,703	58,806	63,217
Placement with other banks	77,437	111,860	116,230	128,737	142,514
Marketable securities	29,687	47,814	37,962	49,380	62,250
Net loans	541,979	532,141	578,814	629,445	684,093
Government bonds	90,659	111,428	106,055	100,949	96,099
Investments	813	8,688	7,077	9,290	11,817
Fixed assets	27,362	26,883	25,623	24,325	22,989
Other assets	71,010	63,657	70,926	76,237	81,946
Total assets	891,337	964,838	1,024,742	1,106,572	1,196,533
Deposits from 3 rd party	679,801	729,169	780,210	838,726	901,631
Borrowings	44,114	32,458	39,011	41,936	45,082
Securities issued	5,575	4,815	5,852	6,290	6,762
Subordinated loans	100	15,765	1,425	1,425	1,425
Deposits from other banks	9,023	14,377	15,604	16,775	18,033
Taxes payable	1,148	1,284	1,560	1,677	1,803
Other liabilities	38,704	40,450	42,912	46,130	49,590
Total liabilities	778,465	838,318	886,574	952,960	1,024,325
Capital stock	9,055	9,055	9,055	9,055	9,055
Additional paid-in capital	14,568	17,010	17,010	17,010	17,010
Other reserves	19,589	22,409	22,409	22,409	22,409
Retained earnings	66,981	75,472	102,242	118,261	137,660
Minority interest	2,680	2,782	2,933	3,123	3,354
Shareholders' equity	112,872	126,727	153,650	169,858	189,488

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Interest income	61,503	55,913	58,006	63,366	70,059
Interest expenses	(22,880)	(16,267)	(17,017)	(18,709)	(19,960)
Net interest income	38,623	39,646	40,988	44,657	50,099
Fees & commissions	8,309	8,943	9,271	9,159	9,891
Non-interest income	5,104	6,578	8,193	9,137	10,506
Operating expenses	(24,214)	(24,801)	(26,099)	(27,868)	(29,809)
Pre-provision profit (loss)	27,822	30,848	32,353	35,086	40,688
Provision expenses	(22,590)	(18,297)	(12,115)	(9,813)	(9,891)
Other non-operating profit (loss)	(119)	(216)	0	0	0
Pre-tax profit	5,112	12,551	20,238	25,273	30,796
Tax	(1,791)	(1,574)	(4,048)	(5,055)	(6,159)
Net profit	3,280	10,899	16,039	20,029	24,406
Non-controlling interest	41	79	152	190	231

Key financial data and ratios

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Gross loans	586,207	582,436	629,031	679,354	733,702
Loan provisions	(44,228)	(50,295)	(50,217)	(49,909)	(49,609)
Deposits	679,801	729,169	780,210	838,726	901,631
Risk-weighted assets	631,482	669,381	707,565	775,691	851,618
Interest-earning assets	788,119	859,257	918,061	974,599	1,052,805
Shareholders equity	112,872	126,727	153,650	169,858	189,488
Net interest income growth (%)	0.8	2.6	3.4	9.0	12.2
Non-interest income growth (%)	(6.1)	7.6	3.7	(1.2)	8.0
Non-interest expenses growth (%)	5.0	28.9	24.6	11.5	15.0
PPOP growth (%)	(1.4)	10.9	4.9	8.4	16.0
Provision expenses growth (%)	155.6	(19.0)	(33.8)	(19.0)	0.8
Pre-tax profit growth (%)	(73.6)	145.5	61.2	24.9	21.9
Net profit growth (%)	(78.7)	232.2	47.2	24.9	21.9
Lending growth (%)	5.3	(0.6)	8.0	8.0	8.0
Deposits growth (%)	10.7	7.3	7.0	7.5	7.5
Risk-weighted assets growth (%)	0.8	6.0	5.7	9.6	9.8
Interest-earning assets growth (%)	7.4	9.0	6.8	6.2	8.0
Net interest margin (%)	4.5	4.6	4.5	4.6	4.8
Loans-to-deposits ratio (%)	86.2	79.9	80.6	81.0	81.4
Cost-to-income ratio (%)	45.5	46.5	44.4	44.7	44.3
Capital adequacy ratio (%)	16.8	17.3	17.4	17.4	17.7
Gross NPLs (%)	4.3	3.7	2.9	2.9	2.7
NPL coverage ratio (%)	182.4	233.6	275.0	253.1	254.9
Provisions / Gross loans (%)	7.5	8.6	8.0	7.3	6.8
Earning assets / Assets (%)	92.0	93.1	91.5	91.4	91.4
CASA / total deposits (%)	68.3	69.4	70.0	70.0	70.0
Dividend payout ratio (%)	25.0	25.0	25.0	25.0	25.0
Dividend yield (%)	2.3	0.5	1.7	2.4	3.0
ROE (%)	2.9	9.3	12.3	13.9	15.1
ROA (%)	0.4	1.2	1.6	1.9	2.1
EPS (Rp)	176	584	860	1,074	1,309
BVPS (Rp)	6,053	6,635	7,304	8,163	9,204
DPS (Rp)	206	44	146	215	269
P/E	50.3	16.0	10.8	8.7	7.1
P/B	1.6	1.4	1.3	1.1	1.0

Bank Rakyat Indonesia (BBRI)

Stock price (Oct 28, IDR)	4,630
Market cap (IDR bn)	700,203
Shares outstanding (mn)	151,559
52W High/Low (IDR)	4,980/3,960
6M avg. daily turnover (IDR bn)	736.2
Free float (%)	46.8
Major shareholders (%)	
Gov't of Indonesia	53.2

Yr to	Oper. income	PPOP	NP	EPS	% chg	BPS	PE	PB	ROA	ROE	DY
Dec	(IDR bn)	(IDR bn)	(IDR bn)	(IDR)	(yoy)	(IDR)	(x)	(x)	(%)	(%)	(%)
2020A	117,814	57,342	18,655	151	(45.7)	1,600	30.6	2.9	1.3	9.2	3.6
2021A	144,566	76,798	32,846	216	76.1	1,903	21.4	2.4	2.1	13.5	1.7
2022F	146,643	87,991	44,586	294	35.7	2,096	15.8	2.2	2.7	14.7	3.7

Source: Bloomberg, Korea Investment & Securities

Relentless focus on micro

Pioneer of microfinance in Indonesia

BBRI consistently focuses on lending to micro, small and midsize enterprises (MSME) in Indonesia. It has since expanded its business with several mergers and acquisitions. Given its focus on micro business, BBRI has an extensive network with more than 10,000 branches across Indonesia

Investment in technology allows continuous cost efficiency

Investment in technology over the past several years, particularly for digital initiatives, has yielded results with meaningful cost efficiencies. Its cost-to-income ratio has been on a steady downturn to 37.1% (as of 1H22) from 41.8% in FY17. BBRI continues to explore new opportunities to grow its digital ecosystem and still has many options to fully monetize its extensive investment.

Latest consolidation of several entities provides further upside value

The consolidation of Bank Syariah Mandiri, BRI Syariah and BNI Syariah into one entity Bank Syariah Indonesia (BRIS), of which BBRI owns 17.3%, provides further upside for cost efficiencies and synergies. In addition and specifically for BBRI, the consolidation of PT Pegadaian (Persero) and PT PNM further lifts BBRI's ROE and its vast network across Indonesia.

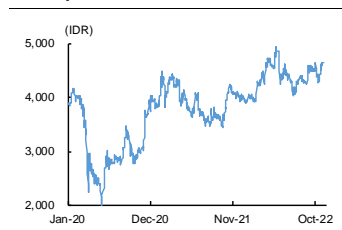
Market leader in micro-segment with decent valuation

We like big state-run banks for their potential earnings CAGR of more than 20% between FY21 and FY24, outpacing BBRI and other conventional banks in our coverage. BBRI's position as market leader in the micro-segments and potential cost efficiencies from consolidation provide big upside for BBRI's future net profit. We like BBRI for its fundamentals and decent valuation at 2.2x FY22F PB (around its 5-year mean).

Performance

	1M	6M	12M
Absolute (%)	1.5	(5.2)	11.5
Relative to JCI (%p)	2.5	(2.8)	0.7

Stock price



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Balance sheet

(IDR bn)

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Cash	32,162	26,300	28,696	30,705	32,854
Placement with central bank	51,531	56,427	53,806	57,572	61,602
Placement with other banks	75,582	73,013	107,314	115,014	123,242
Marketable securities	374,085	426,653	277,752	295,278	318,386
Net loans	875,166	955,038	968,829	1,035,711	1,111,310
Government bonds	0	0	0	0	0
Investments	1,490	6,072	6,976	7,590	8,239
Fixed assets	32,185	47,970	46,668	45,266	43,764
Other assets	69,604	86,626	125,382	131,016	137,044
Total assets	1,511,805	1,678,098	1,615,424	1,718,153	1,836,441
Deposits from 3 rd party	1,121,102	1,138,743	1,195,680	1,279,378	1,368,934
Borrowings	35,969	68,459	72,408	77,476	82,900
Securities issued	74,968	84,715	0	0	0
Subordinated loans	1,465	501	1,495	1,599	1,711
Deposits from other banks	23,786	13,329	13,996	14,976	16,024
Taxes payable	1,401	4,214	4,425	4,735	5,066
Other liabilities	53,202	76,349	60,000	60,000	60,000
Total liabilities	1,311,893	1,386,311	1,348,004	1,438,164	1,534,636
Capital stock	6,167	7,578	7,578	7,578	7,578
Additional paid-in capital	3,412	76,253	76,253	76,253	76,253
Other reserves	15,888	15,734	15,734	15,734	15,734
Retained earnings	179,359	200,079	218,388	242,550	272,041
Minority interest	2,534	3,052	3,081	3,115	3,155
Shareholders' equity	207,359	302,695	321,034	345,230	374,760

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Interest income	117,814	144,566	146,643	159,897	176,186
Interest expense	(37,723)	(29,429)	(27,641)	(30,659)	(32,772)
Net interest income	80,092	115,138	119,002	129,239	143,414
Fees & commissions	15,123	17,062	11,591	12,690	13,832
Non-interest income	14,341	24,154	52,056	53,878	58,468
Operating expenses	(52,164)	(79,403)	(94,658)	(100,424)	(108,665)
Pre-provision profit (loss)	57,342	76,798	87,991	95,382	107,049
Provision expenses	(30,617)	(35,806)	(30,559)	(26,533)	(27,664)
Other non-operating profit (loss)	(49)	(152)	0	0	0
Pre-tax profit	26,725	40,992	57,432	68,849	79,386
Tax	(8,064)	(7,836)	(12,817)	(15,672)	(17,970)
Net profit	18,655	32,846	44,586	53,143	61,376
Non-controlling interest	6	311	29	34	40

Key financial data and ratios

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Gross loans	938,374	1,003,576	1,103,934	1,203,288	1,311,584
Loan provisions	(80,731)	(101,828)	(135,105)	(167,576)	(200,274)
Deposits	1,121,102	1,138,743	1,195,680	1,279,378	1,368,934
Risk-weighted assets	938,485	1,079,317	1,089,146	1,196,052	1,295,819
Interest-earning assets	1,338,009	1,460,967	1,511,275	1,567,338	1,701,811
Shareholders equity	207,359	302,695	321,034	345,230	374,760
Net interest income growth (%)	(3.2)	43.8	3.4	8.6	11.0
Non-interest income growth (%)	4.3	12.8	(32.1)	9.5	9.0
Non-interest expenses growth (%)	2.9	68.4	115.5	3.5	8.5
PPOP growth (%)	(11.7)	33.9	14.6	8.4	12.2
Provision expenses growth (%)	42.0	16.9	(14.7)	(13.2)	4.3
Pre-tax profit growth (%)	(38.4)	53.4	40.1	19.9	15.3
Net profit growth (%)	(45.7)	76.1	35.7	19.2	15.5
Lending growth (%)	3.9	6.9	10.0	9.0	9.0
Deposits growth (%)	9.8	1.6	5.0	7.0	7.0
Risk-weighted assets growth (%)	3.0	15.0	0.9	9.8	8.3
Interest-earning assets growth (%)	10.2	9.2	3.4	3.7	8.6
Net interest margin (%)	6.1	8.0	8.0	8.3	8.5
Loans-to-deposits ratio (%)	83.7	88.1	92.3	94.1	95.8
Cost-to-income ratio (%)	47.6	50.8	51.8	51.3	50.4
Capital adequacy ratio (%)	20.7	25.5	27.4	26.6	26.6
Gross NPLs (%)	1.4	1.8	1.8	1.5	1.5
NPL coverage ratio (%)	634.2	560.7	685.9	907.7	995.2
Provisions / Gross loans (%)	8.6	10.1	12.2	13.9	15.3
Earning assets / Assets (%)	92.8	90.5	90.1	91.6	93.0
CASA / total deposits (%)	59.7	63.1	66.5	66.5	66.5
Dividend payout ratio (%)	60.0	65.0	80.0	65.0	60.0
Dividend yield (%)	3.6	1.7	3.7	4.1	4.5
ROE (%)	9.2	13.5	14.7	16.1	17.2
ROA (%)	1.3	2.1	2.7	3.1	3.3
EPS (Rp)	151	216	294	350	405
BVPS (Rp)	1,600	1,903	2,096	2,255	2,449
DPS (Rp)	167	80	173	191	210
P/E	30.7	21.4	15.8	13.2	11.5
P/B	2.9	2.4	2.2	2.1	1.9

Indo Tambangraya Megah (ITMG)

Stock price (Oct 28, IDR)	44,525
Market cap (IDR bn)	50,310
Shares outstanding (mn)	1,130
52W High/Low (IDR)	45,650/19,025
6M avg. daily turnover (IDR bn)	150.7
Free float (%)	34.7
Major shareholders (%)	
Banpu Minerals	65.1

Yr to	Revenue	OP	NP	EPS	% chg	BPS	PE	PB	ROA	ROE	DY
Dec	(IDR bn)	(IDR bn)	(IDR bn)	(IDR)	(yoy)	(IDR)	(x)	(x)	(%)	(%)	(%)
2020A	17,233	1,512	567	508	(65.9)	10,893	24.7	1.3	3.4	4.7	11.1
2021A	29,693	11,308	6,805	6,017	1,104.9	15,203	3.3	1.3	28.5	39.6	1.1
2022F	52,617	22,323	15,637	13,383	114.9	24,277	3.3	1.8	42.1	55.1	9.5

Source: Bloomberg, Korea Investment & Securities

Pure high-CV coal play

Pure high-CV coal play

As most of its mined coal is high-CV (~5,600-6,500kcal/kg), ITMG's export destinations are mainly China and Japan, comprising 28% and 16% of sales, respectively. Considering the current geopolitical situation, we expect coal prices to stay elevated at least through 1H23. This has greatly benefitted ITMG as its earnings are the most sensitive to coal price movements given ~40% of its coal sales are indexed with a minimal deviation from requirement (25% of volume as a domestic market obligation, DMO). ITMG is on track to record-high annual earnings of more than USD1bn in FY22 (vs. the last high mark was USD520mn in 2011).

No earnings impact next year from heftier royalty taxes

Miners in a coal contract agreement with the Indonesian government that must be extended and converted to IUPK (special mining business permit) will be subject to much higher royalty taxes (i.e., ranging from 14% to 28% depending on contract generation and Indonesia coal reference prices) for coal exports. Most of ITMG's mining licenses are not up for extension for the next the years. Therefore, we see little to impact ITMG's earnings, unlike its peer ADRO.

Acquisitions and/or diversification needed for long-term prospects

ITMG has to acquire new concession areas and/or diversify business to increase its sustainability beyond its limited reserves life (~15 years). ITMG budgets capex of ~USD40mn p.a. to expand its in-house mining contractor (TRUST) and other internal projects to reduce the dependency on third-party mining contractors and lift its operational efficiency.

Strong balance sheet and large net cash position

ITMG is the most sensitive to coal prices due to its high stripping rate (i.e., higher production cost). We like ITMG because of its large exposure to export markets and a tight correlation between its ASP and XW1 benchmark price. In the mid-term, the current coal price environment will benefit ITMG more than its peers. ITMG has a strong balance sheet with zero debt and a large net cash position to sustain its current operations and acquire coal assets for growth. ITMG is more of a dividend play (20%+ yield) as its payout ratio has never fallen below 70%.

Performance

	1M	6M	12M
Absolute (%)	7.3	65.3	118.2
Relative to JCI(%p)	8.1	60.4	83.0

Stock price



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Balance sheet

(USD mn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalents	231	691	933	767	450
Accounts & other receivables	75	187	283	232	156
Inventories	60	62	82	95	84
Others	43	48	69	56	38
Non-current assets					
Fixed assets	210	179	149	75	(20)
Other non-current assets	539	499	911	904	713
Total assets	1,159	1,666	2,427	2,129	1,422
Current liabilities					
Accounts & other payables	62	85	120	109	93
ST debt	-	-	-	-	-
Current portion of LT debt	8	10	-	-	-
Others	137	270	376	302	208
Non-current liabilities					
LT debt & financial liabilities	36	26	-	-	-
Employee benefit liabilities	2	2	3	3	3
Other non-current liabilities	67	72	75	81	74
Total liabilities	312	465	574	495	378
Controlling interest	-	-	-	1	1
Capital stock	393	393	393	393	393
Additional paid-in capital	-	-	-	-	-
Other reserves	-	-	-	-	-
Retained earnings	461	816	1,468	1,248	658
Minority interest	(8)	(8)	(8)	(8)	(8)
Shareholders' equity	846	1,202	1,853	1,634	1,043

Cash flow

(USD mn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operations					
Net profit	39	476	1,022	702	165
Depreciation	100	110	150	159	170
Net incr. in W/C	78	102	(357)	8	126
Others	(83)	(93)	(47)	(30)	53
C/F from investing					
Capex	(17)	(7)	(120)	(85)	(76)
Others	-	-	-	-	-
C/F from financing					
Incr. in equity	(13)	(14)	0	-	-
Incr. in debt	33	(8)	(36)	-	-
Dividends	(65)	(107)	(370)	(922)	(755)
Others	-	-	-	-	-
C/F from others	-	-	-	-	-
Increase in cash	72	460	242	(167)	(317)

Income statement

(USD mn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	1,185	2,077	3,439	2,824	1,901
COGS	(986)	(1,160)	(1,822)	(1,663)	(1,418)
Gross profit	199	917	1,617	1,161	483
SG&A expenses	(95)	(125)	(158)	(164)	(175)
Operating profit	104	791	1,459	997	308
Financial income	3	3	7	7	6
Financial expenses	(3)	(3)	(2)	(2)	(2)
Other expenses	(31)	(170)	(100)	(100)	(100)
Other non-operating profit	-	-	-	-	-
Income (loss) from JV	-	-	-	-	-
Earnings before tax	73	621	1,364	901	212
Income taxes	(35)	(146)	(341)	(198)	(47)
Net profit	39	476	1,022	702	165
Non-controlling interest	2	0	(1)	(1)	(0)
Other comprehensive profit	-	-	-	-	-
Total comprehensive profit	-	-	-	-	-
Controlling-int. total comprehensive profit	-	-	-	-	-
EBITDA	202	901	1,610	1,157	478

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Per-share data (IDR)					
EPS	508	6,017	13,383	9,324	2,191
BPS	10,893	15,203	24,277	21,687	13,851
DPS	474	4,258	10,834	9,324	2,191
Growth (%)					
Sales growth	(31)	75	66	(18)	(33)
OP growth	(42)	661	84	(32)	(69)
NP growth	(70)	1,105	115	(31)	(77)
EBITDA growth	(12)	346	79	(28)	(59)
Profitability (%)					
OP margin	8.8	38.1	42.4	35.3	16.2
NP margin	3.3	22.9	29.7	24.9	8.7
EBITDA margin	17.1	43.4	46.8	41.0	25.2
ROA	3.4	28.5	42.1	33.0	11.6
ROE	4.7	39.6	55.1	43.0	15.8
Dividend yield	11.1	1.1	9.5	24.3	20.9
Dividend payout ratio	94	69	80	100	100
Stability					
Net debt (USD mn)	(188)	(655)	(933)	(767)	(450)
Int.-bearing debt/equity (%)	5.1	3.0	-	-	-
Valuation (x)					
PE	24.7	3.3	3.3	4.8	20.3
PB	1.3	1.3	1.8	2.1	3.2
EV/EBITDA	5.2	1.1	1.6	2.4	6.4

Mayora Indah (MYOR)

Stock price (Oct 28, IDR)	2,430
Market cap (IDR bn)	54,332
Shares outstanding (mn)	22,359
52W High/Low (IDR)	2,520/1,485
6M avg. daily turnover (IDR bn)	19.6
Free float (%)	15.7
Major shareholders (%)	
Unita Branindo	32.9
Mayora Dhana Utama	26.1
Jogi Hendra Atmadja	15.7

Yr to	Revenue	OP	NP	EPS	% chg	BPS	PE	PB	ROA	ROE	DY
Dec	(IDR bn)	(IDR bn)	(IDR bn)	(IDR)	(yoy)	(IDR)	(x)	(x)	(%)	(%)	(%)
2020A	24,477	2,831	2,061	92	3.7	492	26.4	4.9	10.6	19.9	1.3
2021A	27,905	1,772	1,187	53	(42.4)	497	45.8	4.9	6.0	10.7	2.2
2022F	31,176	2,169	1,514	68	27.5	538	35.9	4.5	7.2	13.1	1.1

Source: Bloomberg, Korea Investment & Securities

Delivering the right snacks

Performance

	1M	6M	12M
Absolute (%)	35.2	39.7	3.2
Relative to JCI (%p)	35.0	42.3	(3.6)

Stock price



Strong brand, big demand

According to Kantar, MYOR's Roma biscuit is the only one from the non-pantry-essentials brand in the top-five most preferred brands in the food category (see Table 1). Sitting in 4th place, we attribute the result to the popularity of MYOR's brand and its expertise with assortments. Nielsen reports that there has been a growing trend of consuming snacks at home, resulting in bigger-than-expected snacks sector growth. A strong brand combined with hefty demand would give a buffer to the company amid the challenges presented by soaring inflation.

Expect gross margin to normalize

Following the declining trend of soft commodity prices, we think MYOR's GPM hit bottom in 2Q22 and since picked up. Note that company gradually raised its ASP by >10% in 2022, and it rarely cuts prices; therefore we can expect the full impact in 2023. We anticipate that volume growth will be mostly driven by export market recovery, i.e., China, while domestic volume stays flat. This equals 7.3% top-line growth in FY23. Our GPM assumption of 24.4% in FY23 may be a bit conservative, before returning to normal in FY24 (~26-27%), as we still factor in the possibility of volatile wheat prices due to the ongoing conflict between Russia and Ukraine.

Potential earnings surprise from less-than-expected costs

In all, we forecast MYOR to book IDR 2.2tn earnings (+45% yoy), 18% above the consensus. We think the current consensus operating cost projections may be too high as we believe that 1) the company will stay cautious on A&P spending until the gross margin stabilizes and 2) the company should enjoy cheaper logistics as container shipping rates for export have fallen. We assume a 15.2% costs-to-sales ratio (vs. consensus 16.7%).

Less risk from a strong USD

Should the USD strengthen against the IDR next year, it could create a profound risk for Indonesia: driving up import prices and ballooning USD-denominated debt payments. However, with a large export sales contribution (>40% of total sales) and huge net cash in USD (>50% of MYOR's total cash is in USD), we believe the company can contain the risk.

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Balance sheet

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalents	3,777	3,008	2,229	2,746	3,708
Accounts & other receivables	5,464	5,912	6,355	6,816	7,183
Inventories	2,805	3,034	3,821	4,014	4,140
Others	792	1,014	1,014	1,014	1,014
Non-current assets					
Fixed assets	6,043	6,377	7,919	8,336	8,219
Other non-current assets	896	571	571	571	571
Total assets	19,777	19,916	21,909	23,497	24,835
Current liabilities					
Accounts & other payables	2,467	2,361	2,421	2,552	2,659
ST debt	50	795	795	795	795
Current portion of LT debt	960	2,323	2,878	2,878	2,878
Others	84	91	91	91	91
Non-current liabilities					
LT debt & financial liabilities	3,614	1,845	2,290	2,290	2,290
Employee benefit liabilities	-	-	-	-	-
Other non-current liabilities	1,332	1,142	1,142	1,142	1,142
Total liabilities	8,507	8,557	9,617	9,748	9,855
Controlling interest					
Capital stock	447	447	447	447	447
Additional paid-in capital	-	-	-	-	-
Other reserves	(8)	(13)	(13)	(13)	(13)
Retained earnings	10,571	10,684	11,605	13,049	14,267
Minority interest	260	241	253	266	279
Shareholders' equity	11,270	11,359	12,292	13,749	14,980

Cash flow

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operations	3,302	650	1,296	2,766	3,107
Net profit	2,061	1,187	1,514	2,199	2,319
Depreciation	732	844	952	1,088	1,175
Net incr. in W/C	1,976	(862)	(1,170)	(521)	(387)
Others	(1,467)	(519)	-	-	-
C/F from investing	(634)	(659)	(2,494)	(1,505)	(1,057)
Capex	(634)	(659)	(2,494)	(1,505)	(1,057)
Others	-	-	-	-	-
C/F from financing	(1,873)	(760)	419	(744)	(1,088)
Incr. in equity	-	-	-	-	-
Incr. in debt	(1,184)	338	1,000	-	-
Dividends	(685)	(1,207)	(593)	(757)	(1,101)
Others	(4)	109	12	13	13
C/F from others	-	-	-	-	-
Increase in cash	795	(769)	(779)	517	962

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	24,477	27,905	31,176	33,441	35,239
COGS	(17,178)	(20,982)	(24,068)	(25,282)	(26,077)
Gross profit	7,299	6,923	7,108	8,159	9,162
SG&A expenses	(4,468)	(5,151)	(4,939)	(5,072)	(5,876)
Operating profit	2,831	1,772	2,169	3,087	3,286
Financial income	51	23	40	38	49
Financial expenses	(354)	(321)	(362)	(395)	(395)
Other expenses	-	-	-	-	-
Other non-operating profit	155	75	134	149	94
Income (loss) from JV	-	-	-	-	-
Earnings before tax	2,683	1,549	1,981	2,879	3,034
Income taxes	(584)	(338)	(436)	(635)	(667)
Net profit	2,061	1,187	1,514	2,199	2,319
Non-controlling interest	38	24	31	45	48
Other comprehensive profit	-	-	-	-	-
Total comprehensive profit	-	-	-	-	-
Controlling-int. total comprehensive profit	-	-	-	-	-
EBITDA	3,563	2,616	3,122	4,176	4,461

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Per-share data (IDR)					
EPS	92	53	68	98	104
BPS	492	497	538	603	658
DPS	31	54	27	34	49
Growth (%)					
Sales growth	(2.2)	14.0	11.7	7.3	5.4
OP growth	(10.8)	(37.4)	22.4	42.3	6.4
NP growth	3.7	(42.4)	27.5	45.2	5.5
EBITDA growth	(5.2)	(26.6)	19.3	33.8	6.8
Profitability (%)					
OP margin	11.6	6.4	7.0	9.2	9.3
NP margin	8.4	4.3	4.9	6.6	6.6
EBITDA margin	14.6	9.4	10.0	12.5	12.7
ROA	10.6	6.0	7.2	9.7	9.6
ROE	19.9	10.7	13.1	17.2	16.5
Dividend yield	1.3	2.2	1.1	1.4	2.1
Dividend payout ratio	34.5	58.6	50.0	50.0	50.1
Stability					
Net debt (USD mn)	847	1,955	3,734	3,217	2,255
Int.-bearing debt/equity (%)	44.7	44.9	51.5	46.7	42.3
Valuation (x)					
PE	26.4	45.8	35.9	24.7	23.4
PB	4.9	4.9	4.5	4.0	3.7
EV/EBITDA	15.6	21.6	18.7	13.8	12.7

United Tractors (UNTR)

Stock price (Oct 28, IDR)	32,250
Market cap (IDR bn)	120,390
Shares outstanding (mn)	3,730
52W High/Low (IDR)	36,200/21,250
6M avg. daily turnover (IDR bn)	191.2
Free float (%)	40.4
Major shareholders (%)	
Astra International Tbk	59.5

Yr to	Revenue	OP	NP	EPS	% chg	BPS	PE	PB	ROA	ROE	DY
Dec	(IDR bn)	(IDR bn)	(IDR bn)	(IDR)	(yoy)	(IDR)	(x)	(x)	(%)	(%)	(%)
2020A	60,347	8,294	6,003	1,609	(46.9)	16,162	16.5	1.7	5.4	10.1	2.0
2021A	79,460	14,875	10,279	2,756	71.2	18,380	8.0	1.2	10.3	16.0	3.8
2022F	114,897	26,734	19,120	5,126	87.7	21,811	6.2	1.5	17.0	25.5	9.4

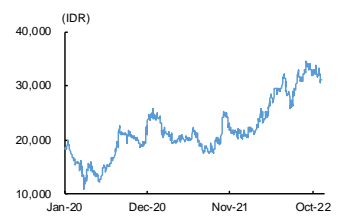
Source: Bloomberg, Korea Investment & Securities

A must-own commodity proxy

Performance

	1M	6M	12M
Absolute (%)	0.5	16.1	41.4
Relative to JCI (%p)	(1.9)	9.2	29.7

Stock price



Leading heavy equipment distributor and mining contractor

UNTR is a subsidiary of conglomerate Astra International Tbk (ASII) and has a diverse portfolio with heavy equipment, mining contracting, coal and gold mining, construction and power plants. UNTR's two prominent divisions (heavy equipment and mining contracting) lead the market with established networks in several strategic provinces and cities around Indonesia.

Steady outlook for mining contracting segment

UNTR's YTD performance was mostly driven by pent-up demand and long lead orders in the heavy equipment segment, especially for mining. As coal prices remain elevated at least through 1Q23, heavy equipment and UNTR's own coal mines can give the upswing to UNTR's earnings. Meanwhile, its mining contracting business under PAMA would be the more steady earnings generator going forward given its long-term contracts and stable fees. We expect PAMA to generate at least IDR40tn in revenue annually and provide a buffer against other segments' revenue more directly linked to coal and gold prices.

Solid operational data in core coal-related business

UNTR's 9M22 operational data is largely in line with our FY22 expectations, achieving 70-82% of our FY22 estimates across segments. Komatsu 9M22 sales were 3,989 units (+107% yoy) with long lead time orders, especially for coal mining large machinery. PAMA's OB removal was 691.8mn bcm (+10% yoy) with a better SR yoy at 8.3x in the 9M22 period (vs. 7.2x in 9M21). UNTR's 9M22 own coal mining was 7.8mn tonnes (flat yoy) while Martabe's 9M22 gold production fell 16% yoy to ~216k oz.

Putting cash into new growth businesses

Despite the recent splash into renewable energy company Arkora Hydro (ARKO), UNTR still has a sizable IDR34.5tn net cash position that allows 1) the pursuit of inorganic growth from other minerals or renewable projects when opportunities arise and 2) strengthening its subsidiaries' balance sheets for sustainable growth.

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Balance sheet

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalents	44,196	60,604	81,404	77,154	79,046
Accounts & other receivables	20,499	33,322	33,288	34,825	41,221
Inventories	10,138	12,207	27,591	23,081	20,214
Others	8,197	9,660	15,163	13,885	12,249
Non-current assets	5,362	5,415	5,362	5,362	5,362
Fixed assets	55,605	51,957	55,141	57,687	58,060
Other non-current assets	37,280	32,382	35,566	38,111	38,485
Total assets	18,326	19,575	19,575	19,575	19,575
Current liabilities	99,801	112,561	136,545	134,841	137,106
Accounts & other payables	20,944	30,489	40,282	36,501	33,328
ST debt	10,273	14,518	27,077	24,796	21,872
Current portion of LT debt	4,045	6,205	4,205	2,705	2,455
Others					
Non-current liabilities	6,626	9,766	9,000	9,000	9,000
LT debt & financial liabilities	15,710	10,249	9,749	9,267	9,267
Employee benefit liabilities	8,436	2,982	2,482	2,000	2,000
Other non-current liabilities					
Total liabilities	7,274	7,268	7,268	7,268	7,268
Controlling interest	36,654	40,739	50,032	45,768	42,595
Capital stock					
Additional paid-in capital	933	933	933	933	933
Other reserves	9,704	9,704	9,704	9,704	9,704
Retained earnings	156	1,250	1,404	1,404	1,404
Minority interest	49,493	56,673	69,318	70,756	75,211
Shareholders' equity	2,861	3,263	5,154	6,276	7,258

Cash flow

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operations	18,557	23,285	19,797	23,593	20,197
Net profit	6,003	10,279	19,120	11,343	9,937
Depreciation	9,946	8,765	7,113	7,622	7,697
Net incr. in W/C	1,723	713	(8,328)	3,506	1,581
Others	885	3,528	1,891	1,122	983
C/F from investing	(2,594)	(3,159)	(10,856)	(10,168)	(8,070)
Capex	(2,824)	(3,061)	(10,856)	(10,168)	(8,070)
Others	229	(98)	-	-	-
C/F from financing	(7,834)	(7,420)	(8,975)	(11,887)	(5,731)
Incr. in equity	-	-	-	-	-
Incr. in debt	(1,609)	(2,500)	(2,500)	(1,982)	(250)
Dividends	(3,639)	(3,013)	(6,475)	(9,905)	(5,481)
Others	(2,586)	(1,907)	-	-	-
C/F from others					
Increase in cash	8,129	12,706	(34)	1,538	6,396

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	60,347	79,460	111,897	93,607	81,981
COGS	(47,357)	(59,796)	(79,065)	(72,403)	(63,867)
Gross profit	12,989	19,664	32,832	21,205	18,114
SG&A expenses	(4,695)	(4,789)	(6,098)	(5,570)	(5,288)
Operating profit	8,294	14,875	26,734	15,635	12,826
Financial income	759	872	817	908	1,018
Financial expenses	(1,540)	(754)	(575)	(427)	(343)
Other expenses					
Other non-operating profit	(824)	(980)	(738)	(735)	-
Income (loss) from JV	323	449	700	600	500
Earnings before tax	7,011	14,462	26,938	15,980	14,000
Income taxes	(1,379)	(3,854)	(5,926)	(3,516)	(3,080)
Net profit	6,003	10,279	19,120	11,343	9,937
Non-controlling interest	371	(329)	(1,891)	(1,122)	(983)
Other comprehensive profit					
Total comprehensive profit					
Controlling-int. total comprehensive profit					
EBITDA	18,240	23,640	33,847	23,257	20,523

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Per-share data (IDR)					
EPS	1,609	2,756	5,126	3,041	2,664
BPS	16,162	18,380	21,811	22,197	23,391
DPS	644	1,240	3,076	1,520	1,332
Growth (%)					
Sales growth	(28.5)	31.7	40.8	(16.3)	(12.4)
OP growth	(50.1)	79.3	79.7	(41.5)	(18.0)
NP growth	(46.9)	71.2	86.0	(40.7)	(12.4)
EBITDA growth	(27.4)	29.6	43.2	(31.3)	(11.8)
Profitability (%)					
OP margin	13.7	18.7	23.9	16.7	15.6
NP margin	9.9	12.9	17.1	12.1	12.1
EBITDA margin	30.2	29.8	30.2	24.8	25.0
ROA	5.4	10.3	17.0	8.3	7.4
ROE	10.1	16.0	25.5	13.8	11.7
Dividend yield	2.0	3.8	9.4	4.7	4.1
Dividend payout ratio	40.0	45.0	60.0	50.0	50.0
Stability					
Net debt (USD mn)	(8,017)	(24,135)	(26,601)	(30,120)	(36,766)
Int.-bearing debt/equity (%)	19.8	12.8	7.7	5.3	4.7
Valuation (x)					
PE	16.5	8.0	6.2	10.4	11.9
PB	1.7	1.2	1.5	1.4	1.4
EV/EBITDA	5.2	2.6	2.7	3.8	4.0

IV. Indonesia ETF monitoring

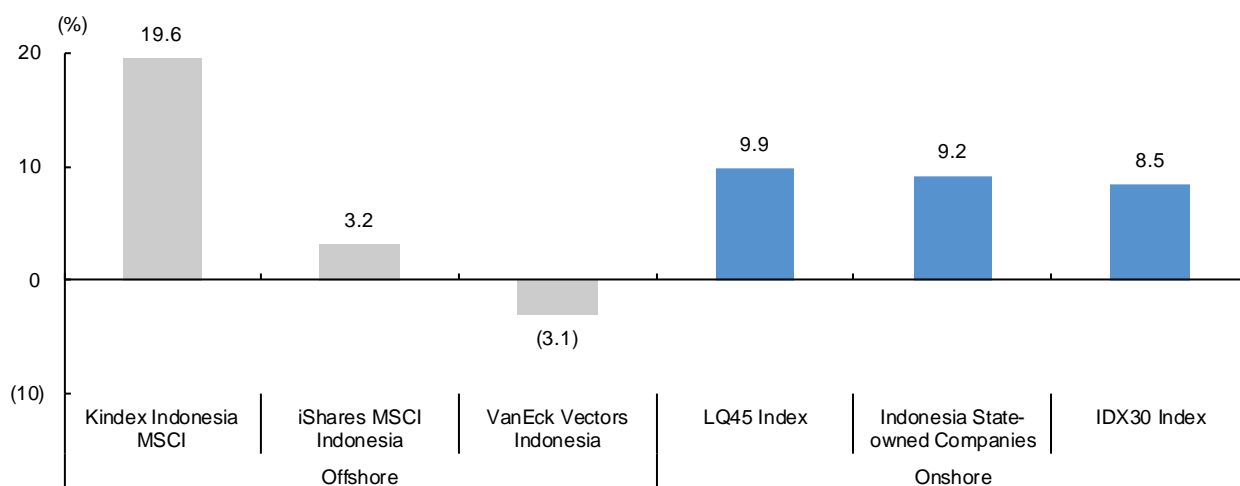
Table 3. Major ETFs related to Indonesia

Name	Ticker	Listed country	Benchmark	Total assets value (mn L/C)	Trading value (mn L/C)	Net assets value per share (L/C)	1M (%)	YTD (%)
VanEck Vectors Indonesia	IDX US	US	MVIDXTR	38.0	0.2	19.0	(3.0)	(3.1)
iShares MSCI Indonesia	EIDO US	US	NU726409	537.2	14.3	23.3	(1.5)	3.2
Kindex Indonesia MSCI	256440 KS	Korea	MXID	43,245.0	110.6	11,380.5	(4.6)	19.6
Premier ETF IDX30	XIIT IJ	Indonesia	IDX30	2,444,431.0	20.1	578.7	(1.2)	8.5
Premier ETF LQ-45	R/LQ45X IJ	Indonesia	LQ45	1,225,771.3	29.9	1,099.9	(1.0)	9.9
Premier ETF Indonesia State-owned Companies	XISC IJ	Indonesia	JCI	688,050.8	1.3	746.5	(0.8)	9.2

Note: As of November 4, 2022 close

Source: Bloomberg, Korea Investment & Securities

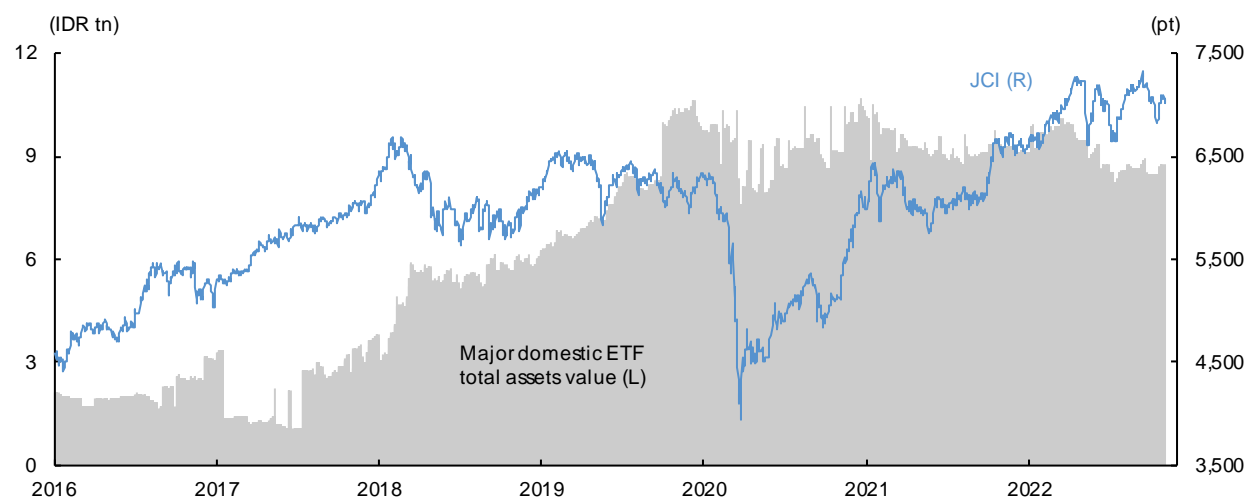
Figure 26. YTD performance: Major Indonesian onshore vs. offshore ETFs



Note: As of November 4, 2022 close

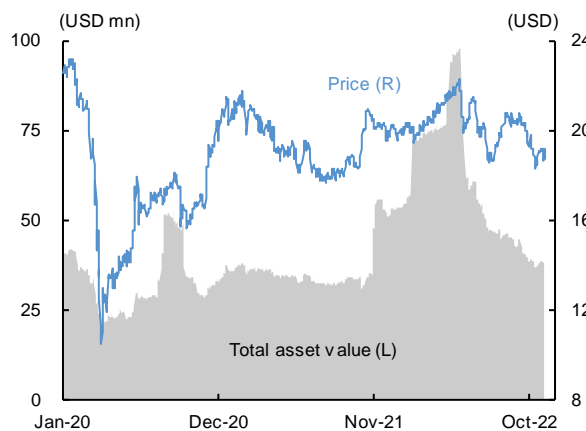
Source: Bloomberg, Korea Investment & Securities

Figure 27. Major Indonesian onshore ETF total assets value vs. JCI



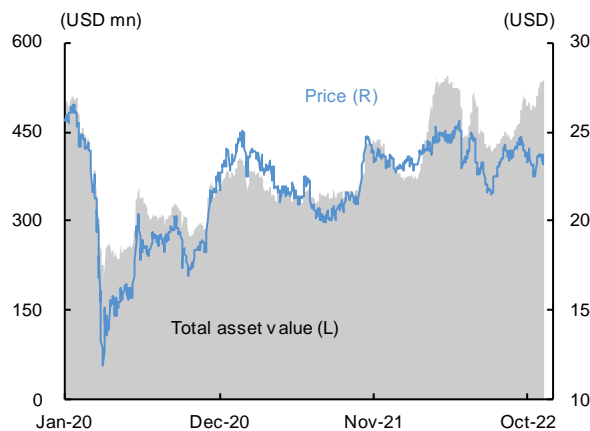
Source: Bloomberg, Korea Investment & Securities

Figure 28. VanEck Vectors Indonesia ETF (offshore)



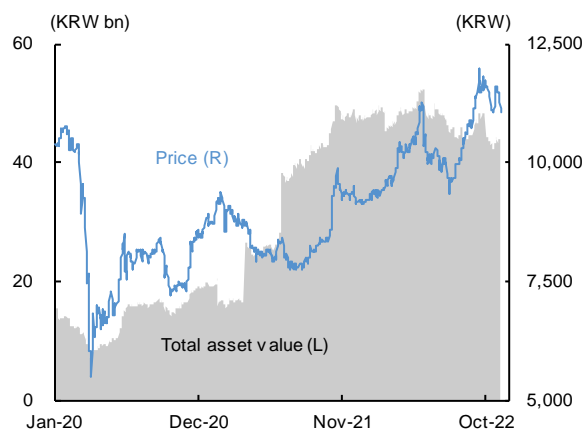
Source: Bloomberg, Korea Investment & Securities

Figure 29. iShares MSCI Indonesia ETF (offshore)



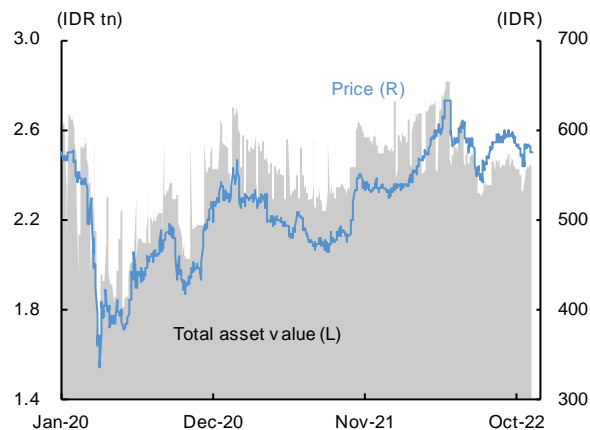
Source: Bloomberg, Korea Investment & Securities

Figure 30. Kindex Indonesian MSCI (offshore)



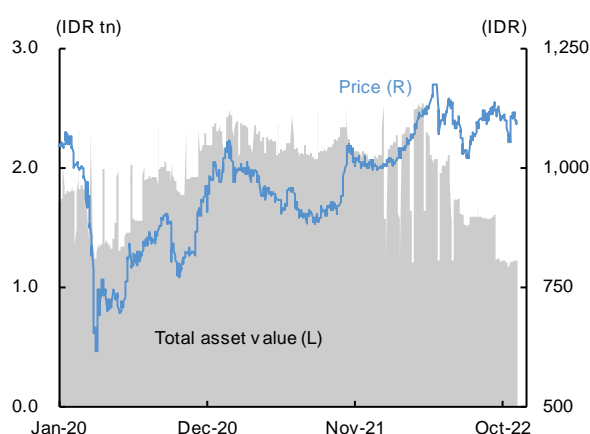
Source: Bloomberg, Korea Investment & Securities

Figure 31. Premier ETF IDX30 (onshore)



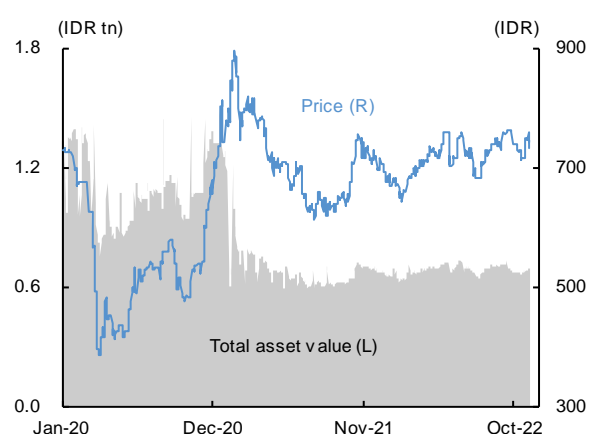
Source: Bloomberg, Korea Investment & Securities

Figure 32. Premier ETF LQ-45 (onshore)



Source: Bloomberg, Korea Investment & Securities

Figure 33. Premier ETF Indonesia State-owned Companies (onshore)



Source: Bloomberg, Korea Investment & Securities

V. Appendix

Table 4. Global and Indonesia stock exchange indexes and valuations

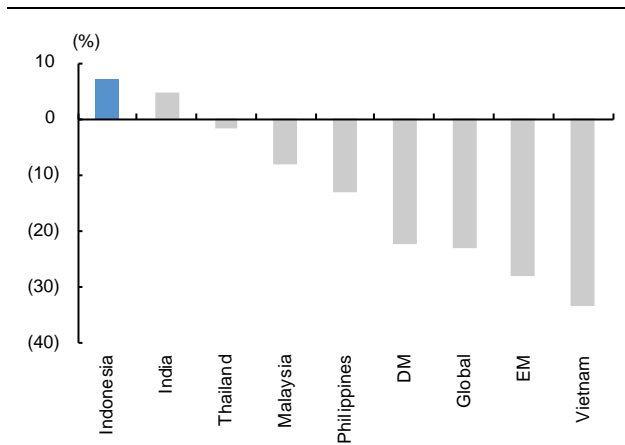
		Index & closing price (pt, IDR, %)				EPS (USD, IDR, %)					Valuation (x)	
		pt/LC	1M	6M	YTD	FY22	12MF	1M	6M	YTD	12MF PE	12MF PB
Global												
MXWD Index	Worldwide	581	(0.3)	(13.0)	(23.1)	41.8	41.1	(2.2)	(4.1)	(1.1)	14.1	2.1
MXWO Index	DM	2,507	(0.2)	(12.5)	(22.4)	174.0	170.7	(1.9)	(2.5)	1.9	14.7	2.4
MXEF Index	EM	885	(1.0)	(16.8)	(28.2)	83.7	82.9	(3.8)	(12.8)	(16.3)	10.7	1.1
Indonesia												
JCI	Jakarta Composite Index	7,046	(0.4)	(2.5)	7.1	473.6	475.7	5.3	22.6	13.9	14.8	1.8
MXID Index	MSCI Indonesia	7,605	0.6	(0.4)	13.6	564.8	560.4	1.7	17.7	25.8	13.6	2.3
LQ45 Index	LQ45 Index	1,006	(0.9)	(7.3)	8.0	63.6	63.6	3.9	(12.4)	(2.2)	15.8	2.0
MSCI Indonesia by sector												
Financials Index	Financials	4,446	2.4	1.4	16.7	286.2	280.4	2.4	15.4	18.5	15.9	2.6
Materials Index	Materials	159	3.3	(9.3)	(0.2)	12.1	11.8	4.1	112.6	107.4	13.5	1.6
Consumer Staples Index	Consumer staples	636	4.4	17.6	8.9	40.0	39.1	0.4	(11.1)	(10.0)	16.2	2.6
Energy Index	Energy	261	(8.2)	7.7	53.1	46.2	48.7	3.3	32.3	103.2	5.4	1.3
Communication Services Index	Communication	1,149	(5.8)	(7.6)	2.2	75.8	74.9	(0.2)	6.2	8.4	15.3	3.1
Consumer Discretionary Index	Consumer discretionary	4,020	(4.5)	(15.2)	12.7	435.6	436.9	(2.8)	14.6	24.9	9.2	1.3
Health Care Index	Healthcare	281	8.3	19.8	21.7	12.0	11.8	0.1	10.8	17.1	23.9	4.0

Note: 1) As of November 4, 2022 close

2) MSCI Indonesia does not include industrials, utilities, real estate and IT

Source: Bloomberg, Korea Investment & Securities

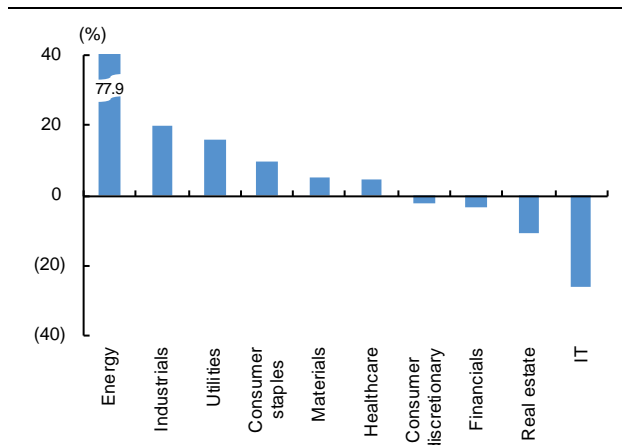
Figure 34. 2022 performance: Indonesia vs. major economies



Note: December 31, 2021-November 4, 2022

Source: Bloomberg, Korea Investment & Securities

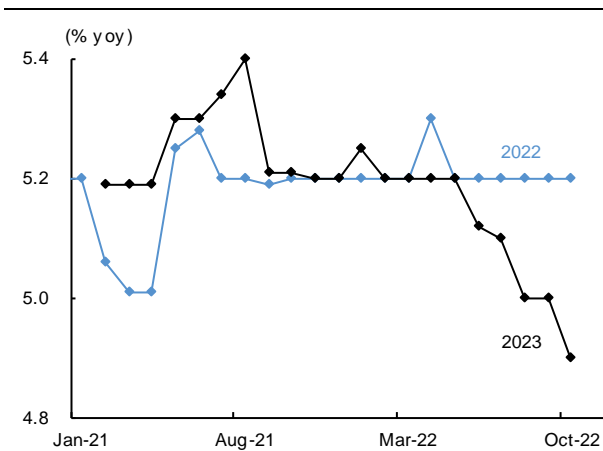
Figure 35. 2022 performance: JCI by sector



Note: December 31, 2021-November 4, 2022

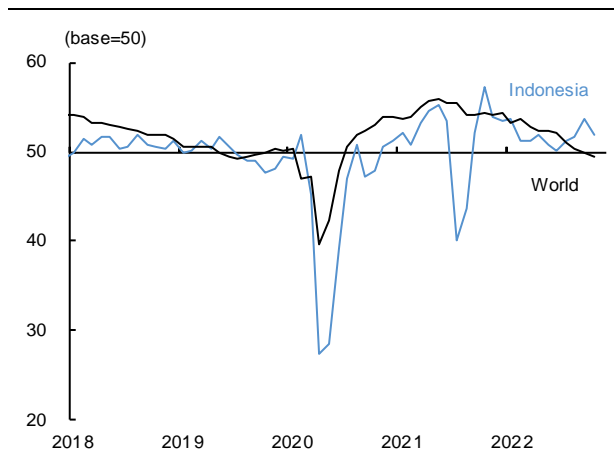
Source: Bloomberg, Korea Investment & Securities

Figure 36. 2022 and 2023 GDP growth consensus



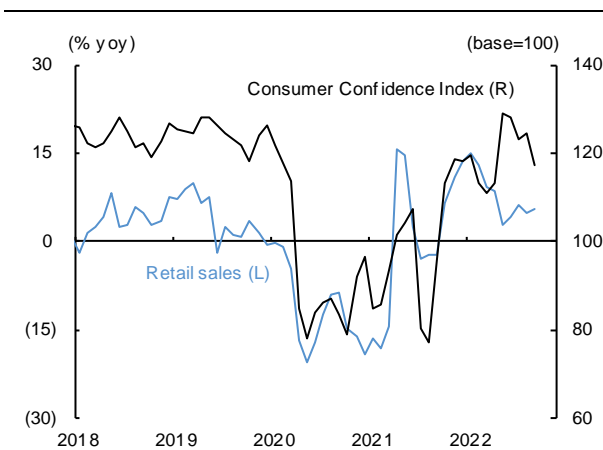
Source: Bloomberg, Korea Investment & Securities

Figure 37. Manufacturing PMI



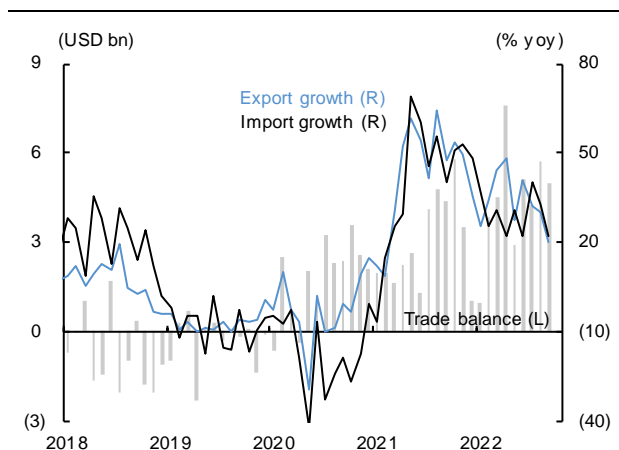
Source: Bloomberg, Korea Investment & Securities

Figure 38. Retail vs. Consumer Confidence Index



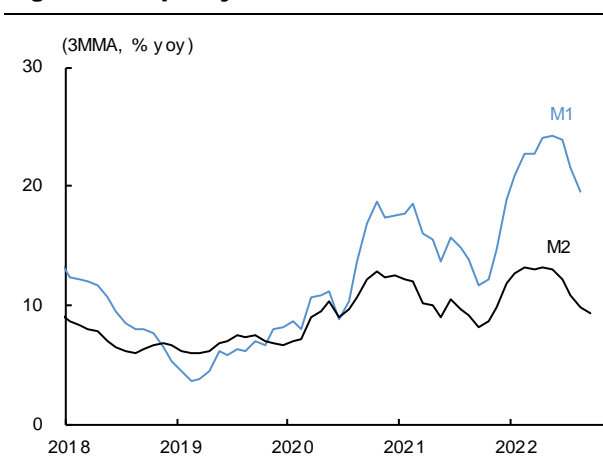
Source: CEIC, Korea Investment & Securities

Figure 39. Trade balance vs. import/export growth



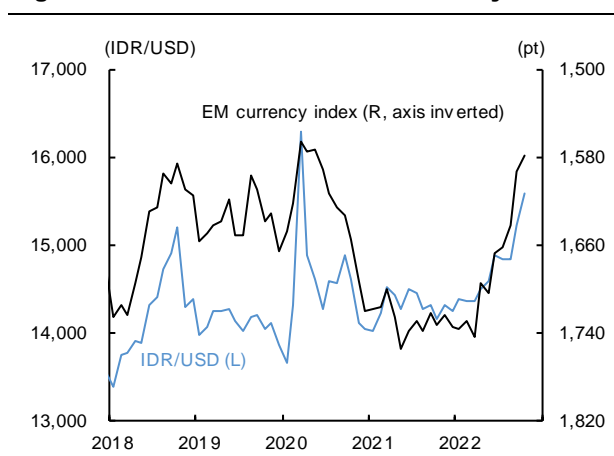
Source: CEIC, Korea Investment & Securities

Figure 40. Liquidity



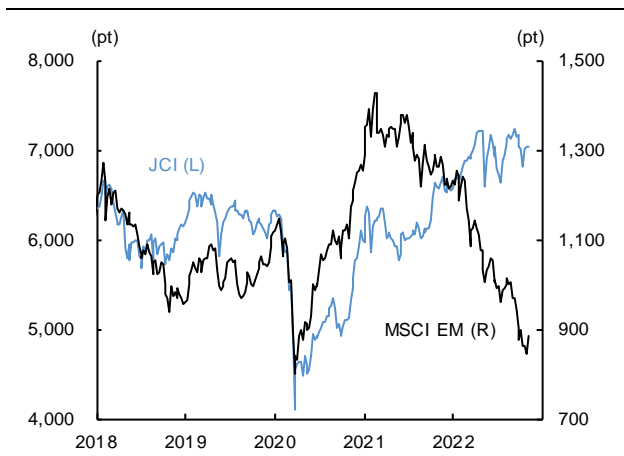
Source: Bloomberg, Korea Investment & Securities

Figure 41. IDR/USD and MSCI EM currency index



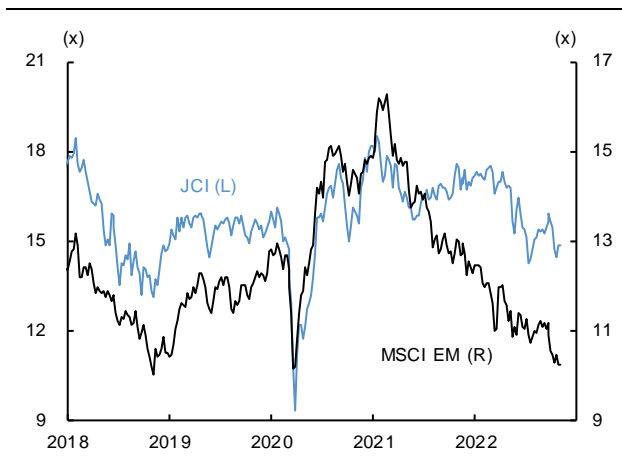
Source: Bloomberg, Korea Investment & Securities

Figure 42. JCI vs. MSCI EM Index



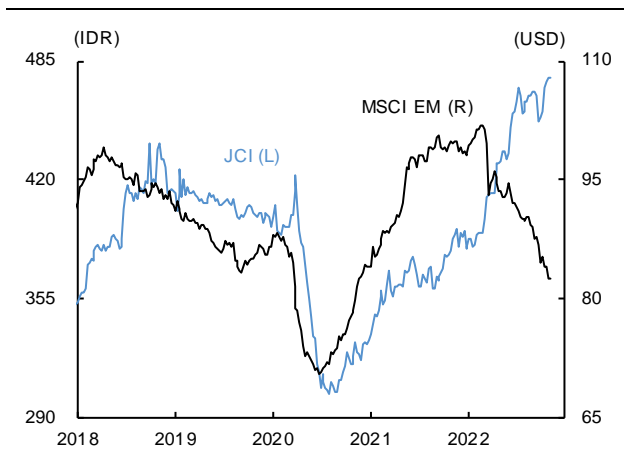
Source: Thomson Reuters, Korea Investment & Securities

Figure 43. JCI vs. MSCI EM Index 12MF PE



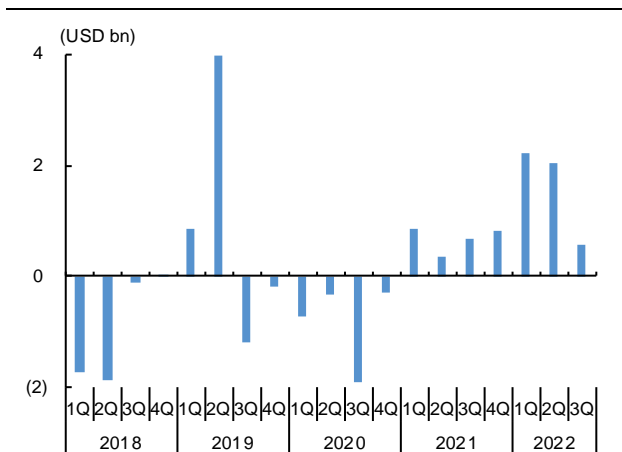
Source: Thomson Reuters, Korea Investment & Securities

Figure 44. JCI vs. MSCI EM Index 12MF EPS



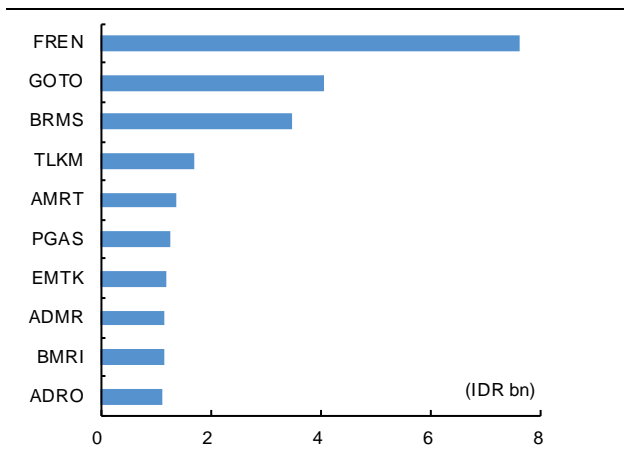
Source: Thomson Reuters, Korea Investment & Securities

Figure 45. Quarterly foreign net buying



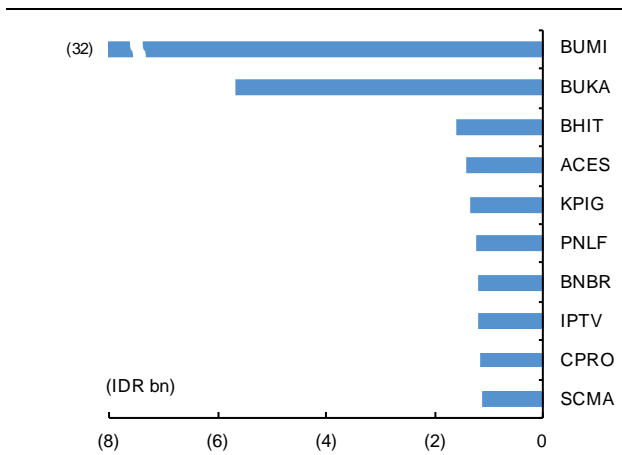
Source: Bloomberg, Korea Investment & Securities

Figure 46. 2022 foreign net buying: Top 10 stocks



Note: January 3-November 4, 2022. Jakarta Stock Exchange
Source: IDX, Korea Investment & Securities

Figure 47. 2022 foreign net selling: Top 10 stocks



Note: January 3-November 4, 2022. Jakarta Stock Exchange
Source: IDX, Korea Investment & Securities

VI. Major stock market events

Table 5. Major stock market dates in 2023

	Month	Date	Major events
1H	Feb		4Q22 GDP release
	Mar	22 (Wed)	Hindu New Year (market close)
		7 (Fri)	Good Friday (market close)
	Apr	21 (Fri)-23 (Sun)	Lebaran holiday (market close)
		24 (Mon)	2024 general election: Candidates start to register for seats at the People's Consultative Assembly and local legislative bodies
	May	1 (Mon)	Labor Day (market close)
		5 (Fri)	Buddha's birthday (market close)
		18 (Thu)	Ascension Day (market close)
			1Q23 GDP release
	Jun	1 (Thu)	Pancasila (market close)
2H		29 (Thu)	Eid Al Adha (market close)
	Jul	19 (Wed)	Muharram (market close)
	Aug	17 (Thu)	Independence Day (market close)
			2Q23 GDP release
	Oct	19 (Thu)	2024 general elections: President and vice president candidates start to register
	Nov	28 (Tue)	2024 general elections: Campaigns begin (run until Feb 10, 2024)
			3Q23 GDP release
	Dec	25 (Mon)	Christmas (market close)

Note: 1) Bank Indonesia monetary policy meeting at mid-month

2) General elections slated for February 14, 2024

Source: Bank Indonesia, Bloomberg, Korea Investment & Securities

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