Portfolio Report
5 November 2019

Komodo Dragon Indonesia

INCO.IJ
Better outlook of Ni price

INCO booked strong net profit in 3Q19 of US$26.4mn (vs US$ 6.2mn net loss in 2Q19). Average selling price is predicted to increase by +8% and +15% in 4Q19 and 2020F respectively. Hence, we believe the price target at Rp 5,000 /share implies 2020F PER of 20.

The sales volume in 3Q19 of 19,998 metric tonnes boosted top line amounts to US$ 214.2mn (+29.2% qoq and +5% yoy). The production will be likely at maximum capacity after decreasing production in 1Q19-2Q19 caused by electric furnace system overhaul.

Double digit growth in production and sales volume

INCO recorded 3Q19 Nickel in matte production improved to 19.820 tonnes (+12% QoQ, +9% YoY). This brought total 9M19 production of 50.531 tonnes, representing 71% of FY19F target of 71,000 mt. For sales volume, INCO recorded 3Q19 nickel in matte of 19,998 Mton or +18% QoQ and +8% YoY. In our view, the QoQ production hike after the incident in electronic furnace system in 1Q19 has now normalized without any additional major maintenance activities. We believe INCO could maintain this strong operational performance into 4Q19, we expect total sales volume in FY19 to reach 70,658 mt.

Lower cash cost

INCO's HSFO usage decreased to 992.769 barrel in 9M19 (-15.1% YoY) after maintenance activities back to normal in 1Q19. Moreover, as fuel represents around 30% of INCO's total COGS, we lowered our cash cost estimates in 2020F by 12.5% to US$5,587/ton due to a recent drop in global coal and oil benchmark price. We assume coal price of US$ 80/ton and brent oil price of US$60/bbl in 2020F.

Nickel ore export ban

Indonesia, one of the world's top supplier of nickel ore, will allow miners to continue exports until a ban takes effect on Jan. 1 and ordered greater scrutiny of cargoes meant for shipments. This policy will see nickel price continue to rise. On the other hand, Nickel inventory reduction is continuing on the LME, with about 30% of stocks having been withdrawn since this month. This condition indicates that several big stainless steel producers are stockpiling the nickel inventory in preparation of export ban from Indonesia.

.

MDKA.IJ

Forecast and Valuation	2017	2018	2019F	2020F	2021F
Revenue (USD mn)	129	294	367	401	431
EBITDA (USD mn)	79	139	186	207	227
Net profit (USD mn)	43	52	80	92	104
EPS (USD/share)	0.0103	0.0126	0.0192	0.0220	0.0249
ROE (%)	22.7	12.4	15.5	14.2	12.5
P/E ratio (x)	36.7	30.1	19.8	17.2	15.3
P/BV ratio (x)	8.3	3.7	3.1	2.5	1.9
EV/EBITDA (x)	25.5	14.6	10.9	9.8	8.9

Jumped earnings growth

Merdeka Copper Gold (MDKA) posted stellar performance in 1H19, with net profit recorded at around USD42 mn, up 30% yoy. The earnings figure came relatively in-line with consensus FY19 forecast achieved 52.8% and 53.0%, respectively. This solid performance was mainly caused by revenue that spiked 67% yoy to USD 192mn, albeit margins compressed across the board. Gross and operating margin declined significantly to 45.2% (vs 1H18: 56%) and 40.7% (vs 1H18: 50.2%), respectively. We suspect the squeezed on margins was caused by the company that dug lower grade gold this year compared to last year. Thus, COGS increase faster than revenue to USD 105 mn, up 105% yoy.

On quarterly basis, the company also posted solid performance with revenue and net profit grew by 9.1% and 8.1%, respectively. Margins were expanded, with gross and operating margin stood at 47.9% (vs. 1Q19: 42.2%) and 44.2% (vs. 1Q19: 36.9%), respectively. We suspect this was caused by gold ASP relatively higher in 2Q19 and lower AISC during the quarter.

Solid gold operational figures

Tujuh Bukit Oxide operational figures recorded strong performance. Production in 1H19 was posted at around 110,544 ounces, spiked by 47.4% yoy as a result of successful Oxide Expansion Project. During 2Q19, the company also managed to book higher production volume at some 64,030 ounces, up 37.7% qoq on the back of higher ore crushed and stacked (+36.4% qoq).

Sales volume was recorded at 102,294 ounces, jumped by 22.2% yoy. On ASP, the company booked slightly higher ASP at around USD1,331/oz, up 1.8% yoy. AISP increased by 10.8% yoy in 1H19 ot USD554/oz. Following this solid performance, the company increased their guidance for 2019 to 190,000 210,000 of gold (prev. 180,000 200,000) at an AISC of USD625 700/oz.

Strong copper sales volume

On copper, company managed to book strong sales volume in 2Q19 at around 5,662 ton, up 63.6% qoq. Production wise, the mine produce lower volume at around 4.3% qoq was caused by 7 days power outages and scheduled maintenance. Nevertheless, the major improvement projects of the Lerokis haul road, new mining fleet and neutralization plant expansion were successfully delivered. Thus, we expect the company will produce higher copper in the next quarter. The management maintained their guidance for Wetar.

We maintain our earnings forecast and target price on the back of relatively in-line performance result in 1H19. The company successfully exercised their PMTHMETD and accepting USD 60mn to finance their Pre-feasibility studies in Porphyry. The company requires additional USD 50mn to complete the study, thus we assume the company would conduct another fund raise in the near future. Currently, MDKA trades at PE 2019/20 19.8/17.2x. Our TP of IDR 1,340 still offers 18.7% potential upside from the current share price.

BBRI.IJ
Outlook Shall Improve Going Forward

- 9M19 net profit of Rp24.8tr (+5% yoy/+8% qoq) was below estimates as decent PPOP growth was offset by higher provisions
- Higher provision and downgrades was deemed necessary by the Below than expected results prompted us to keep our target price unchanged
- BRI now trades at 2.4x P/BV (at its 10-year mean). Risk is higher provision

BBRI.IJ

Growth YoY	2017A	2018A	2019F	2020F	2021F
Gross loans	11.4%	14.0%	12.0%	12.0%	12.0%
Total assets	12.2%	15.2%	7.1%	9.9%	10.7%
Customer deposits	11.9%	12.3%	7.4%	11.0%	12.0%
Net interest income	10.4%	6.7%	7.2%	11.6%	12.9%
Non-interest income	13.9%	23.7%	-0.6%	9.4%	10.4%
Total operating income	11.1%	10.3%	5.3%	11.1%	12.4%
Operating expense	8.4%	9.2%	7.2%	9.1%	13.9%
PPOP	13.2%	11.1%	4.0%	12.6%	11.3%
Net profit	10.7%	11.6%	8.2%	11.7%	11.0%
Key Ratios	2017A	2018A	2019F	2020F	2021F
ROAA	2.7%	2.7%	2.6%	2.7%	2.7%
ROAE	18.3%	18.3%	17.8%	17.7%	17.6%
NIM	7.8%	7.3%	7.0%	7.2%	7.3%
Credit cost (bps)	2.5%	2.3%	2.0%	2.0%	2.0%
Cost/income	41.6%	41.2%	41.9%	41.1%	41.7%
LDR	87.1%	88.4%	92.3%	93.1%	93.1%
CAR	22.8%	21.4%	21.1%	21.7%	21.9%
NPL ratio	2.1%	2.2%	2.2%	2.4%	2.1%
Provisions/NPL	197.7%	191.8%	197.9%	193.8%	230.3%

- **Decent PPOP growth offset by higher provisioning**
- 9M19 net profit of Rp24.8tr (+5% yoy/+8% qoq) was slightly below at 71%/70% of our/consensus 2019 estimates. PPOP grew at decent rate of 7% yoy (+10% qoq) but offset by a steep increase in provision (+13% yoy/+3% qoq – unusual as usually BRI's front-load its provision in 1H), its bank only provision went up by 136% mom. Credit cost was at 2.4% in 9M19, higher than management guidance of 1.9-2.1% (our estimate: 2%).
- **Stable NIM in 3Q19**
- NIM stood at 7% in 9M19, stable vs. 1H19 (7.6% in 1H19). Both asset yield and CoF were flat qoq. Deposits grew 10% yoy (+2% yoy), driven by CASA (+13% yoy/+3% qoq) while TD was weaker (+6% yoy/flat qoq). LDR slightly rose to 94% in 3Q19 from 93% in 3Q18 but was flat qoq. Lower rates by BI (-100bp YTD) will be positive for its CoF.
- **Loan growth still driven by micro, Kupedes outpacing KUR**
- Loan grew 12% yoy (+2% qoq). Micro (+13% yoy/+3% qoq) was the driver, with Kupedes (+14% yoy/+3% qoq) outpacing KUR growth (+12% yoy/+45% qoq) which was positive. Small commercial (+13% yoy/+2% qoq) saw robust growth, while corporate (+8% yoy/-2% qoq) was slower.
- **Mild sinking**
- NPL rose to 2.9% in 3Q19 from 2.5% in both 3Q18 and 2Q19 – this was largely due to a jump in non-SOE corporate NPL (10.5% in 3Q19 vs. 5.8% in 3Q18) amid downgrades from textile and cement debtors, while other segments' NPL remained relatively resilient. On the other hand, SML improved to 4.5% in 3Q19 from 3.9% in 3Q18 (5.3% in 2Q19). Loan-at-risk rose to 10.4% in 3Q19 from 10% in 3Q18 but improved qoq 10.6% in 2Q19.

TINS.IJ
Better outlook on supply

TINS production capacity doubled compared to last year. TINS targeted to produce 63,000-70,000 tonnes of tin, a two-fold increase from 33,425 tonnes of 2018. The capacity could help TINS from decreasing price of global tin metal amidst trade war between US and China. TINS is the biggest exporter granted by Indonesian regulator.

Increasing production and sales

TINS recorded sales of Rp 9.65 trillion in 6M19 (+120,32% yoy), thus gave earning of Rp 205.29 billion (+20,66% yoy). The production of 37,717 tonnes in 6M19 is a +300% growth yoy.

Earning growth is insignificant due to decreasing realized price of tin in 2Q19, resulting in lower margin. The financial result will likely worsen in 3Q19 and 4Q19 due to worsening tin price to US$ 16,000 level, -25% ytd. To ease the impact in financial result, TINS plan to reduce export volume of 1,500-2,000 tonnes/month and focus its sales domestically. TINS will see a BEP when price of tin is in range of US$ 17,000-US$ 18,000 per tonne.

Upcoming expansion project

Ausmelt (in collaboration with Finnvera as financer) to process low-grade tin-ore with a recovery rate of 98%. At annual capacity of 40,000 tonnes , it requires capex of US$ 80mn (estimated to finish by 2H21). The new technologies will support the company's productivity and efficiencies. In the end of 2021, TINS will have the production capacity of 100,000 tons per year.

Tin smelter in Nigeria at annual capacity of 5,000 tonnes.

Tin market outlook 2020.

Tin's potential is highlighted in a recent study by MIT, as it was ranked as the most impacted metal by new EV technology, even ahead of lithium or cobalt. DBS forecasted the global refined tin consumption growth to rebound to 3% yoy in 2020.

We expect an increase in tin price in 2020 in line with USA and China trade war deal and China's PMI growth. We expect tin price to rise to US$ 20,000 level. With this target price, we expect TINS price will reach Rp 1,400, PER of 10.

TPIA.IJ
Expecting Butadiene Progress

Facing Cost Pressure

TPIA marked the upward sales of 16.3% y-y into USD603 million in 3Q17. Olefin and polyolefin as the most substantial revenue contributors respectively picked up by 40.1% and 10.4%. The olefin division contributed by 46% to the total revenue and polyolefin by 42%.

On the flip side, the COGS also picked up by 24.4% y-y from USD 377 million in 3Q16 into USD 469 million in 3Q17. The **raw material expense hiked** by 13.7% y-y from USD294 million into USD 334 million. Additionally, the **factory overhead expense also edged up** by 36.6% y-y from USD 51 million into USD 69 million. We oversee that **the upward trend in global oil price** will set as a expense challenge to be faced by TPIA.

Brand-New Stage of Butadiene Performance

The contribution of butadiene division to the total sales doubled. In 3Q17, it posted sales of USD 124 million (+273.1%). It was the first time for this division to post sales topping USD100 million. In the prior periods, this division posted the highest sales amounting only to USD88 million. We project that in 2018, this division will give greater contribution along with the increment in the butadiene capacity from 37KT into 137 KT in 2Q18.

Chandra Asri Petrochemical, Tbk | Summary (USD mn)

	2016/12A	2017/12E	2018/12E	2019/12E
Sales	1,930	2,586	3,208	3,960
Sales growth	*40.1%*	*34.0%*	*24.0%*	*23.4%*
EBITDA	495	631	868	1,049
Net profit	308	379	536	589
EPS (IDR)	1,223	283	406	446
EPS growth	*1074.6%*	*25.5%*	*43.5%*	*9.9%*
BVPS (IDR)	4,703	1,322	1,552	1,694
EBITDA margin	*25.7%*	*24.4%*	*27.1%*	*26.5%*
NPM	*16.0%*	*14.7%*	*16.7%*	*14.9%*
ROE	*30.4%*	*26.0%*	*28.1%*	*27.5%*
ROA	*15.4%*	*15.2%*	*16.5%*	*16.2%*
ROIC	*16.8%*	*20.7%*	*21.1%*	*0.0%*
P/E	16.9x	19.6x	13.7x	12.4x
P/BV	4.4x	4.2x	3.6x	3.3x
EV/EBITDA	10.6x	11.4x	8.4x	7.1x
DPS (IDR)	473	195	303	387
Dividend yield	*2.3%*	*3.5%*	*5.5%*	*7.0%*