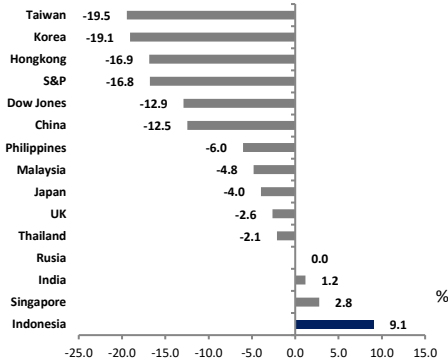


Monday, 05 September 2022

Strategy

Fuel Price Hike – Risk Assessment

YTD share performance (%)



Source: Bloomberg

As the government finally announced anticipated hikes in subsidized fuel prices, the main risk to the market lies more on the monetary policies' response, especially as inflation will rise to 6.73% in October 2022. The risk to consumption is partially mitigated by the government's additional support in terms of social assistance. Based on our 3 main risk assessments, the more resilient sector are: **Commodities, Banking, Consumer Staples and Tower & Telcos** which fall within **Low Risk to Low – Medium Risk** spectrum.

Macro Impact. The government finally announced anticipated hikes in subsidized fuel prices in a bid to safeguard the state budget posture given the planned volume consumption. The price of Pertalite & Diesel has been raised by 31-32%, while the Pertamax by 16%. Combined, we expect inflation to go up to peak of 6.73% in Oct 22 from the current 4.7% level. Household consumption growth will also moderate to 5.05% and 5.09% in 3Q and 4Q22, respectively, with overall GDP growth of 5.1% in 2022 (vs 5.2% previously).

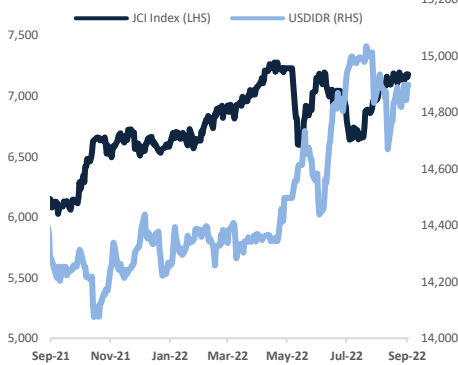
Market impact. In our view, there are 3 elements of market impact:

1. In the previous fuel price hike cycle, market returns were positive one month post the fuel price hike announcement, albeit exhibiting a moderating trend subsequently. As a result, we believe the key determinant to market performance will largely be the monetary policy response. In our view, as BI allowed its policy stance to tilt toward pro-growth earlier this year (placing it behind the curve), we anticipate a moderate approach to rate hikes this time around. We expect 75-100bps rate hike in 2022 vs 50-75 bps previously.
2. The uptick in inflation will potentially lead to higher Minimum Wage Growth, agreed upon at the triparty meeting between the govt, business associations and the labor union. As inflation has been relatively mundane in the past several years, higher inflation will also translate into potentially higher wage growth. This would support consumption milieu in 2023, supporting overall growth before the 2024 election year.
3. After fuel prices were hiked back in Nov 2014, the government decided to trim back fuel prices in Jan 2015 given lower oil prices. Such a scenario might also be plausible if the oil price continues to moderate although the impact in creating lower inflation would be lagging and might need certain government intervention.

Risk assessment on three fronts. The fuel price hikes will have an impact on the monetary policy response, and thus overall asset prices. Furthermore, with the recent Fed stance being more hawkish, a stronger dollar will remain a risk for corporates. We assess risks on 3 main fronts:

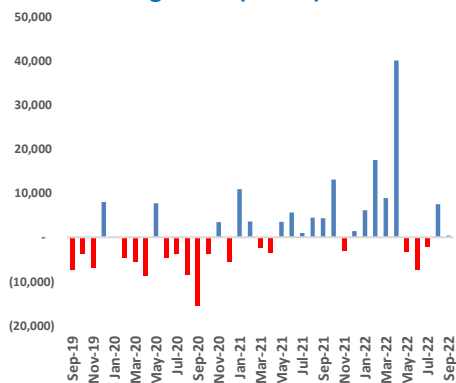
1. **Fuel price hikes:** The impact of higher subsidized fuel prices will be across the board, hitting the purchasing power of consumers. As part of its mitigating measures, the government recently announced additional social support spending amounting to IDR24tn at the grassroots level which will be disbursed by 1 Sept 2022. Based on our assessment, the fuel price hike risk is medium to medium high for Autos, Cigarettes, Logistics, Poultry and Tech.
 2. Higher inflation will lead to a **higher interest rates environment**, and based on our assessments, Construction will face the higher risk in this spectrum, while Banking, Property and Poultry carry Medium Risk.
 3. **Volatility in currency landscape** as Indonesia's dependency on raw material imports is still the main risk factor. As such, considerable IDR weakening could lead to negative impact to corporate earnings. We see that Pharma and Poultry are exposed to the highest risk in this spectrum.
- Based on our assessment, the sectors which carry Low risk are Commodities (Coal, Metal Mining and Plantations), while Banking, Consumer Staples and Tower & Telcos fall into the Low-Medium Risk Spectrum.

JCI vs USD



Source: Bloomberg

Net foreign flow (IDRbn)



Source: Bloomberg



Helmy Kristanto

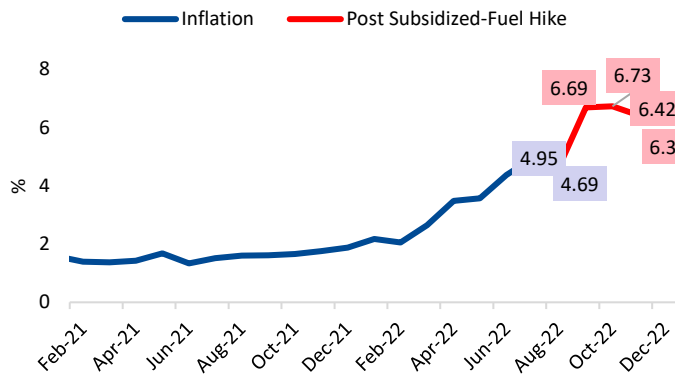
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Exhibit 1. GDP Forecast FY-22

Indicator	2021					2022				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3F	Q4F	FY F
GDP	-0.70	7.07	3.51	5.02	3.69	5.01	5.44	5.45	4.51	5.10
Consumption										
Household	-2.21	5.96	1.02	3.55	2.02	4.34	5.51	5.05	5.09	5.00
Non-Profit	-3.69	3.99	2.79	3.29	1.59	5.85	5.04	5.40	4.16	5.10
Government	2.55	8.06	0.62	5.25	4.17	-7.59	-5.24	-1.30	5.09	-1.20
Gross Fixed Capital Formation	-0.21	7.52	3.76	4.49	3.80	4.09	3.07	4.30	4.10	3.90
Inventories + Statistics Disc.	-6.58	-0.44	57.36	-0.16	4.16	40.15	-6.06	-3.33	92.36	-23.13
Export of Goods & Service	6.94	31.50	29.16	29.83	4.69	16.69	19.74	13.03	15.63	16.18
Import of Goods & Service	4.41	31.84	29.95	29.60	3.70	15.87	12.34	8.83	10.72	11.85

Source: BRI-DS Economic Research

Exhibit 2. Inflation Projection Post Subsidized Fuel-Hike


Source: BRI-DS Economic Research

Exhibit 3. Announcement of Hike in Pertamina's Fuel Prices

Year	Type of Fuel	Previous Price	Increased to	Changes
2022	Pertalite	7,650	10,000	30.7%
	Solar	5,150	6,800	32.0%
	Pertamax	12,500	14,500	16.0%

Source: Pertamina

Exhibit 4. Sectoral Risk Matrix

Sector	Fuel prices	Interest Rate	Currency Volatility	Total risk
Automotive	Medium	Medium	Medium	Medium
Banking	Low	Medium	Low-medium	Low-medium
Cement	Low-medium	Low-medium	Low	Low-medium
Cigarette	Medium-High	Low	Low	Medium
Coal Mining	Low	Low	Low	Low
Construction	Low	Medium-High	Low	Medium
Consumer	Low	Low	Low-medium	Low
Industrial Estate	Low	Low-medium	Low-medium	Low-medium
Logistics	Medium-High	Low-medium	Low-medium	Medium-High
Media	Low-medium	Low-medium	Low-medium	Low-medium
Metal Mining	Low	Low	Low	Low
Petrochemical	Low	Medium	Low	Low-medium
Pharmaceutical	Low	Low-medium	Medium-High	Medium
Plantation	Low	Low	Low	Low
Poultry	Medium-High	Medium	Medium-High	Medium-High
Property	Low	Medium	Low-medium	Low-medium
Retail	Low-medium	Medium	Medium	Medium
Tech	Medium-High	Low-medium	Low-medium	Medium
Telecommunication	Low-medium	Low-medium	Medium	Low-medium
Tower	Low	Low-medium	Low-medium	Low-medium
Trade	Low-medium	Low-medium	Low-medium	Low-medium

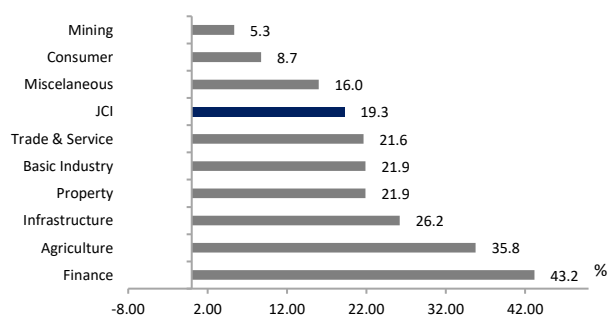
Source: BRI-DS

Exhibit 5. Previous Episodes of Hike in Subsidized Fuel Prices

Year	Date	Previous Price	Increased to	Changes
2014	17-Nov-14	6,500	8,500	30.8%
2013	22-Jun-13	4,500	6,500	44.4%
2008	23-May-08	5,000	6,000	20.0%
2005	1-Oct-05	2,400	4,500	87.5%
2002	1-Mar-02	1,450	1,550	6.9%

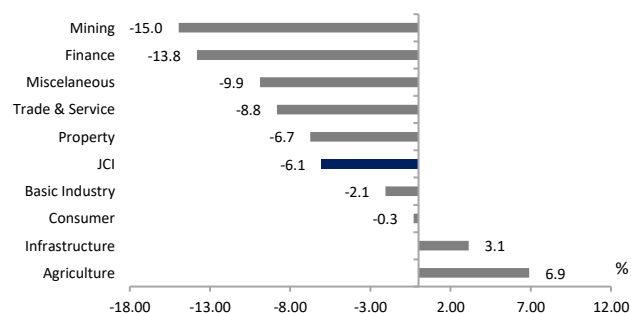
Source: Various

Exhibit 6. Sectoral Performances – 1Mo. After 1 March 2002 Hike



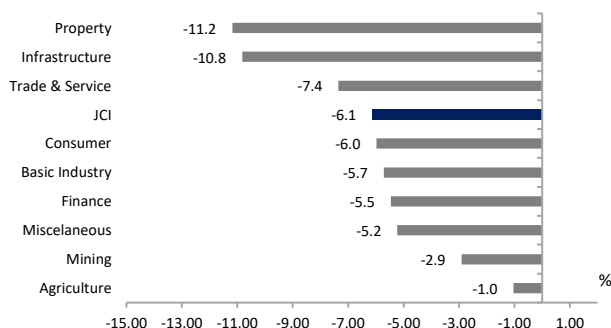
Source: Bloomberg

Exhibit 7. Sectoral Performances – 1Mo. After 1 Oct 2005 Hike



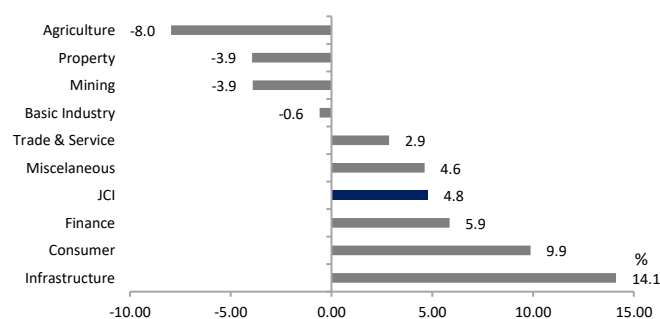
Source: Bloomberg

Exhibit 8. Sectoral Performances – 1Mo. After 23 May 2008 Hike



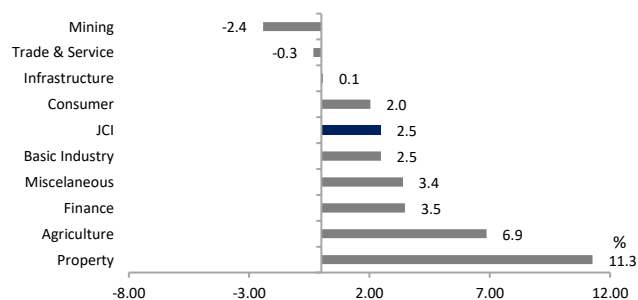
Source : Bloomberg

Exhibit 9. Sectoral Performances – 1Mo. After 22 June 2013 Hike



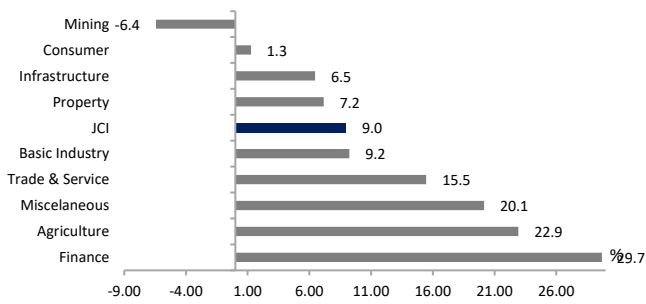
Source : Bloomberg

Exhibit 10. Sectoral Performances – 1Mo. After 17 Nov 2014 Hike



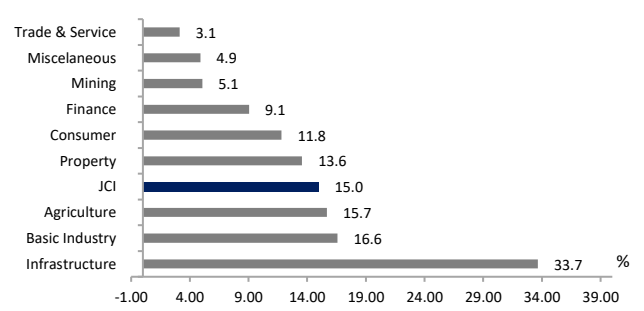
Source: Bloomberg

Exhibit 11. Sectoral Performances - 3Mo. After 1 March 2002 Hike



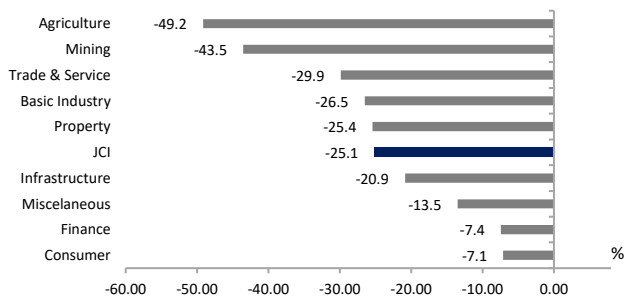
Source: Bloomberg

Exhibit 12. Sectoral Performances – 3Mo. After 1 Oct 2005 Hike



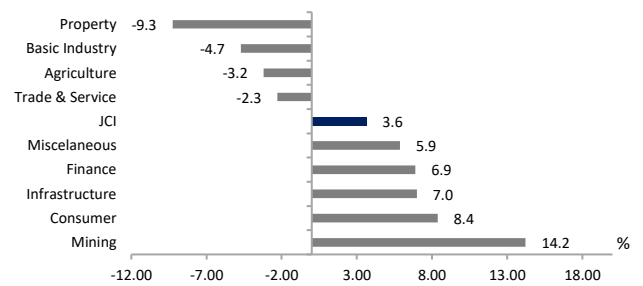
Source: Bloomberg

Exhibit 13. Sectoral Performances – 3Mo. After 23 May 2008 Hike



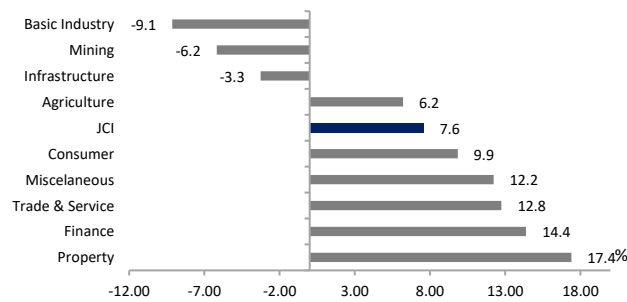
Source: Bloomberg

Exhibit 14. Sectoral Performances – 3Mo. After 22 June 2013 Hike



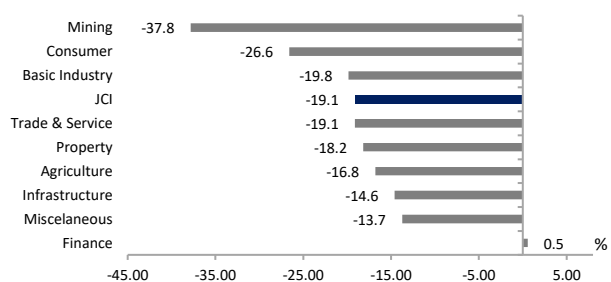
Source: Bloomberg

Exhibit 15. Sectoral Performances – 3Mo. After 17 Nov 2014 Hike



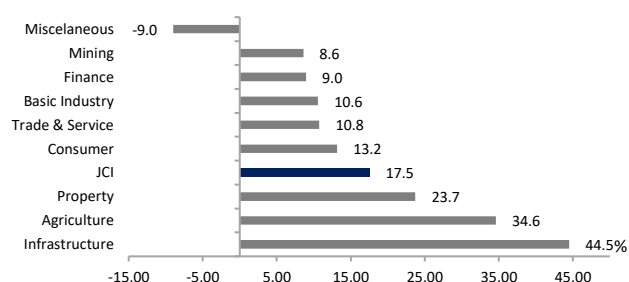
Source: Bloomberg

Exhibit 16. Sectoral Performances - 6Mo. After 1 March 2002 Hike



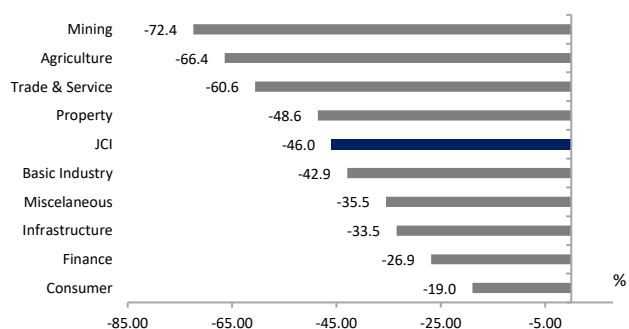
Source: Bloomberg

Exhibit 17. Sectoral Performances – 6Mo. After 1 Oct 2005 Hike



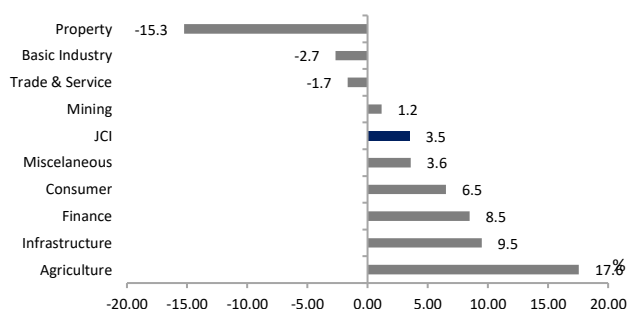
Source: Bloomberg

Exhibit 18. Sectoral Performances – 6Mo. After 23 May 2008 Hike



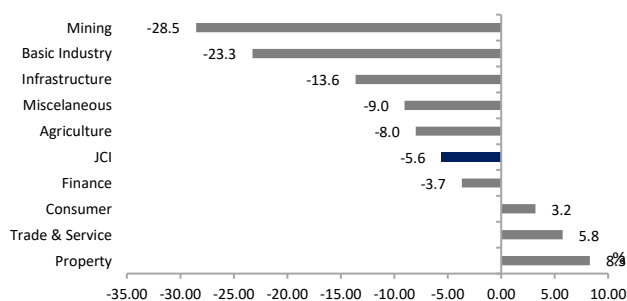
Source: Bloomberg

Exhibit 19. Sectoral Performances – 6Mo. After 22 June 2013 Hike



Source: Bloomberg

Exhibit 20. Sectoral Performances – 6Mo. After 17 Nov 2014 Hike



Source: Bloomberg

Exhibit 21. Average Sectoral Return during Fuel Price Hike

Average Out of 5 Times Hike	Return 1 Month After	Average Out of 5 Times Hike	Return 3 Month After	Average Out of 5 Times Hike	Return 6 Month After
Agriculture	8.11	Finance	10.52	Infrastructure	-1.54
Finance	6.64	Miscellaneous	5.93	Finance	-2.50
Infrastructure	6.54	Consumer	4.84	Consumer	-4.53
Basic Industry	3.20	Infrastructure	4.60	Agriculture	-7.80
Consumer	2.87	JCI	2.01	JCI	-9.93
JCI	2.86	Property	0.69	Property	-10.00
Property	2.26	Trade & Service	-0.16	Miscellaneous	-12.73
Miscellaneous	1.78	Agriculture	-1.51	Trade & Service	-12.97
Trade & Service	1.59	Basic Industry	-2.91	Basic Industry	-15.63
Mining	-3.77	Mining	-7.37	Mining	-25.79

Source: Bloomberg, BRI-DS

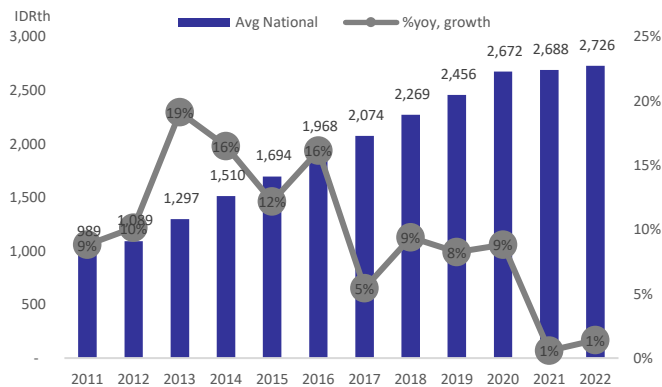
Exhibit 22. Episodes of USD/IDR Dynamics and Impact to JCI

Period		USD/IDR		% of change	JCI		% of change	Episodes
Start date	End date	Beginning	End		Beginning	End		
24-Nov-08	01-Apr-10	12,700	9,068	-29%	1,141	2,830	148%	Appreciation
01-Sep-08	24-Nov-08	9,167	12,700	39%	2,165	1,141	-47%	Depreciation
01-May-13	30-Dec-13	9,728	12,196	25%	5,061	4,274	-16%	Depreciation
01-Jan-14	20-Apr-14	12,171	11,445	-6%	4,327	4,699	9%	Appreciation
01-Apr-14	24-Sep-15	11,313	14,741	30%	4,874	4,244	-13%	Depreciation
20-Jan-16	10-Mar-16	13,964	13,052	-7%	4,428	4,793	8%	Appreciation
17-May-16	02-Jun-16	13,295	13,643	3%	4,729	4,833	2%	Depreciation
02-Jun-16	10-Oct-16	13,643	12,977	-5%	4,833	5,361	11%	Appreciation
11-Sep-17	27-Oct-17	13,156	13,609	3%	5,872	5,975	2%	Depreciation
25-Jan-18	31-Oct-18	13,289	15,203	14%	6,615	5,832	-12%	Depreciation
02-Jan-19	06-Feb-19	14,458	13,920	-4%	6,181	6,548	6%	Appreciation
06-Feb-19	22-May-19	13,920	14,525	4%	6,548	5,940	-9%	Depreciation
22-May-19	16-Jul-19	14,525	13,935	-4%	5,940	6,402	8%	Appreciation

Period		USD/IDR		% of change	JCI		% of change	Episodes
Start date	End date	Beginning	End		Beginning	End		
16-Jul-19	13-Aug-19	13,935	14,325	3%	6,402	6,211	-3%	Depreciation
13-Aug-19	13-Sep-19	14,325	13,967	-2%	6,211	6,335	2%	Appreciation
02-Oct-19	31-Dec-19	14,197	13,866	-2%	6,055	6,300	4%	Appreciation
06-Mar-20	23-Mar-20	14,243	16,575	16%	5,499	3,990	-27%	Depreciation
23-Mar-20	09-Apr-20	16,575	15,880	-4%	3,990	4,649	17%	Appreciation
09-Apr-20	27-Apr-20	15,880	15,385	-3%	4,649	4,513	-3%	Appreciation
27-Apr-20	19-May-20	15,385	14,770	-4%	4,513	4,549	1%	Appreciation
19-May-20	05-Jun-20	14,770	13,878	-6%	4,549	4,948	9%	Appreciation
05-Jun-20	03-Jul-20	13,878	14,523	5%	4,948	4,974	1%	Depreciation
03-Jul-20	28-Sep-20	14,523	14,900	3%	4,974	4,907	-1%	Depreciation
28-Sep-20	17-Nov-20	14,900	14,055	-6%	4,907	5,530	13%	Appreciation
17-Nov-20	31-Mar-21	14,055	14,525	3%	5,530	5,986	8%	Depreciation
31-Mar-21	27-Jul-22	14,525	15,012	3%	5,986	6,898	15%	Depreciation

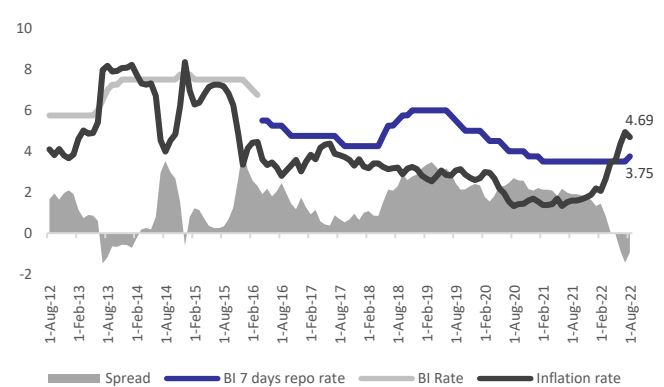
Source: Bloomberg, BRI-DS

Exhibit 23. Minimum Wage



Source: Ministry of Manpower

Exhibit 24. Inflation vs. BI Rate



Source: Bloomberg

Exhibit 25. Consumption Cushion through Social Assurances – Sept'22

Social Assistance	
Wage Subsidies Assistance (<i>Bantuan Subsidi Upah</i>)	Non-Cash Food Assistance (<i>Bantuan Pangan Non-Tunai</i>)
Nominal : IDR 600k - One Time Payment Target : 16 million workers, with salary of IDR 3.5 mn./month Budget : IDR 9.6 tn.	Nominal : IDR 200k/month - 1Yr. Payment Target : Vulnerable Poor Groups
Community Cash Assistance (<i>BLT Masyarakat</i>)	MSMES Cash Assistance (<i>BLT UMKM</i>)
Nominal : IDR 150k/month - Four Time Payment Target : 20.6 million community groups Budget : IDR 12.4 tn.	Nominal : IDR 600k Target : 12 million micro-entrepreneurs, fishermen
Village Fund Cash Assistance (<i>BLT Dana Desa</i>)	Pre-Employment Cards (<i>Kartu Prakerja</i>)
Nominal : IDR 300k/month/family group - 1Yr. Payment Target : Specific Villagers Family Group	Nominal : IDR 600k/month - Four Time Payment Target : Members of Pre-Employment Programs Wave 43

Source: Various

Exhibit 26. Sectoral View on Fuel Price Hikes

Sector	View on Fuel Price Hikes
Automotive	As a discretionary product, the impact of fuel prices and the BI rate are usually carefully calculated by the buyers. Therefore, we think the increase in fuel prices, inflation and the BI rate may not significantly affect purchasing decisions, especially after the purchasing delays in 2020 and 2021. Looking at the improving Gaikindo data and purchasing orders in GIIAS, we think the strong vehicle sales will continue.
Banks	We expect a low to medium impact on the banking sector from fuel price hikes, higher inflation and the BI rate as well as USD/IDR movements. Higher fuel prices that should lead to elevated inflation will have a manageable impact on the banks under our coverage as the correlation should be quite low based on historical data. Concerns would be more on banks with sizeable exposure to grassroots segments, i.e. BBRI and BTPS, yet both banks argue that the borrowers still have the ability to pass-on the higher costs via their respective selling prices of products/services. Meanwhile, the USD/IDR rate will generally have a neutral impact as most of the funding instruments are dominated by the IDR. OVERWEIGHT maintained with BMRI (BUY, TP IDR10,500) as our top pick.
Cement	Fuel price increases may have a relatively small negative impact on the transportation and delivery costs for cement players. We have calculated that for every 1% increase in the fuel price, the net profit will decrease by 0.7% for SMGR, and by 1.7% for INTP. However, we foresee a medium impact on the cement demand due to lower purchasing power, as people will tend to prioritize their spending on daily needs. We believe that the fuel price will be very elastic to the inflation rate, thus having a direct impact on purchasing power. For the BI rate, we expect the impact to be low as only SMGR has exposure to bank loans with floating interest rates, and the DER level is still manageable at 0.4x.
Cigarette	Higher fuel prices will have a medium-high impact on the cigarette sector. For the past 3 years, the sector was under pressure from higher excise tax. Therefore, higher fuel prices will trim the grassroots' disposable income, leading to further down trading. We maintain our Neutral stance on cigarette companies.
Coal Mining, Metals, Plantation	These three sectors have low risk to hikes in subsidized fuel prices as the companies in these sectors utilized non-subsidized fuel types for their vehicles. Also, the ASP in these sectors are not correlated with Indonesia's inflation or the BI rate. The impact of IDR depreciation is positive on companies in these sectors.
Construction and Toll Road	We see that the fuel price will have a small direct impact on the construction sector, yet it will have a medium indirect impact on the overall cost structure as the fuel price is elastic to the inflation rate. Meanwhile, for toll roads, the impact is somewhat more positive because a higher inflation rate can be transmitted to higher toll tariffs, according to the regulation. For the BI rate, we expect a medium-to-high negative impact on the sector due to high exposure to bank loans with floating rates. PTPP has the highest portion of floating rate loans (67% of total interest-bearing debt), and WSKT has the lowest portion of floating rate loans (4% of total interest-bearing debt). For ADHI, we expect a lower interest impact as it has more bonds payable with fixed rates (47% of the total interest-bearing debt).
Consumer	In our view, the consumer staples sector has a low risk regarding the government's decision to raise fuel prices. While higher fuel prices will trim the grassroots' disposable income, the sector offers basic needs with affordable prices. This will sustain sales going forward. We see that downtrading can be mitigated by the availability of smaller size packages with lower prices. Within the sector, we prefer ICBP and MYOR given their strong positions in the market and the additional growth driver from the Middle East (ICBP). For MYOR, a significant contribution from export markets provides a natural hedge against currency depreciation.
Industrial Estate	The impact on the profitability of Industrial estate developers is minimal as both costs and ASP are unrelated to rising fuel prices. Rupiah depreciation would be beneficial as ASP are pegged to the USD while costs remain in IDR. However, some developers might see earnings dragged down by higher interest expenses from USD linked debt. Higher inflation and BI rates are unlikely to have a big impact on industrial land demand due to its long-term nature. Developers with high gearing might also see higher interest expenses.

Sector	View on Fuel Price Hikes
Logistics	Most of the logistics companies are using partnership schemes with the couriers which is proven to effectively reduce the costs according to the seasonality with a relatively stable per package cost as last-mile transportation costs are absorbed by the couriers. However, we are cautious on the operations side as it might be affected by declining disposable income of the couriers should the price of pertalite be increased.
Media	<ul style="list-style-type: none"> - FUEL PRICE hikes may have little weight on Business decision making in ADEX. Consumer confidence should roughly be more upbeat post Covid, and Indonesian GDP performed better than expected. - INFLATION: ADEX spending should be largely unchanged in our view. If any there can be wage inflation but very limited in our view. - BI RATE: If any impact, it would be on OTT start up valuations being sentiment prone to a higher WACC, but we are conservative employing 10-yr rates. - FOREX: Local broadcasters and OTT will focus more on local content which should be positive. Sports content prices may see an uptick.
Petrochemical	As the domestic petrochemical industry may still need financing to expand facility capacity, higher BI rates might impact the cost of funds. The fuel prices and foreign exchange depreciation may not impact the industry as the fuel cost component is very low compared to the raw materials and the financial statements are usually recorded in USD.
Pharmaceutical	We see less impact from the change in fuel prices on pharmaceutical products, as the products are considered less price sensitive and essential for consumers. However, movements in the currency might negatively impact the input costs as most of KLBF's raw materials are still imported. We continue to like KLBF for its steady earnings growth stemming from solid top line growth and cost efficiency as well as many efforts to bring new drivers for sales growth ahead (new oncology/biosimilar products, new products in nutrition/consumer health and medical devices).
Poultry	Rising fuel prices will have a negative impact on the poultry sector from lower disposable income. Hence, this may lead to lower demand for chicken products. However, historically we see that livebird prices were more impacted by the supply side. Rising interest rates might cause some earnings pressure on integrators with high debt levels. As part of the costs are of imported items while sales are made domestically, there will be a negative impact on margins if the Rupiah depreciates.
Property	There is a minimal impact on property developers' profitability as both costs and ASP are not related to higher fuel prices. Rupiah depreciation has a negative impact as some of the raw materials are imported. However, as these materials are more used in high-rise buildings and high-end developments, we believe the impact can be contained. Developers currently have relatively lower gearing, so rising interest expenses might not be significant. However, despite expecting minimal transmission to the mortgage rate, rising interest rates always bring negative sentiment to the property sector.
Retail	The retail sector faces risks from fuel price hikes, higher inflation and higher BI rates as well as from the USD/IDR rate, particularly retailers with a target market of the lower income segment. This is because the lower income segment has lower disposable income with consumers prioritizing their spending on basic needs during higher inflation periods. Meanwhile, mid-upper oriented retailers should be in a better position as they can absorb price increases despite higher opex. In the longer run, the retail sector remains promising due to Indonesia's resilient consumption story. OVERWEIGHT with MAPI (BUY, TP IDR1,400) as our top pick.

Sector	View on Fuel Price Hikes
Technology	<ul style="list-style-type: none"> - FUEL PRICE hikes are expected to be met with higher tariffs and minimum charges to neutralize the impact on drivers for on-demand (food delivery, ride hailing). Techs will try to pass through the new tariffs & charges to consumers. Ecommerce will also be impacted as there will be an attempt to pass through potentially higher delivery costs. - INFLATION - BI RATE. Consumers may avoid purchases of big ticket items, incl. housing, new cars/motorcycles, and apply a higher budget on staples, fmcg, to consumer electronics at best. Ecommerce platforms are flexible to switch a focus between verticals and deliver GMV growth as per demand. Tech start up valuations are also sentiment prone to a higher WACC, but we are conservative employing 10-yr rates. - FOREX can drive higher the cost of goods and verticals with a high portion of foreign content.
Telecommunication	<ul style="list-style-type: none"> - FUEL PRICE - INFLATION. Fuel price hikes for the low end segments (that contribute 25%-60% of mobile revenues depending on the operator) could mean: a) lower mobility or b) unchanged mobility but assigned lower budgets for telco expenses. The most adverse reaction may be down trading to smaller validity and/or data quotas. This may have a neutral to positive effect as implied data yields are usually higher in smaller data packs. - BI RATE: The telco biz is capital intensive, and BI rate hikes may increase the cost of funding. Telco cos can adjust by lowering dividends, equity fundraising and further unlocking value in their fixed assets. Our DCF valuations incorporate 10-yr rates for WACC; thus the impact of higher BI rates should be limited. - FOREX can drive higher the purchase cost of equipment. Telco debt is mostly IDR denominated.
Tower	<ul style="list-style-type: none"> - FUEL PRICE: Towers are B2B companies, a non consumer biz and thus little impact from fuel price hikes. - INFLATION: Towers are well insulated as their contracts carry inflation escalation provisions for lease rates. - BI RATE: The towers biz is capital intensive, and BI rate increases may increase the cost of funding. Tower cos can mitigate this by switching to equity fundraising. - FOREX can drive higher the purchase cost for steel. MTEL is only local debt financed; the other tower companies' debt costs are well hedged against forex.
Trade	<p>The increase in the pertalite price may impact positively AKR's retail fuel, as the gap narrows. Although the price of AKR retail fuel is still far above the pertalite and pertamax prices, the sensitivity to the global oil price is higher which may indicate a further narrowing in the gap, looking at the recent oil price developments.</p>

Source: BRI Danareksa Sekuritas

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