

FROM EQUITY RESEARCH
Adaro Energy: Recovery in store

(ADRO IJ.IDR 1,455. BUY.TP IDR 2,000)

We expect the improvement in low-CV coal prices since the beginning of the year to help Adaro Energy (ADRO) book solid coal ASP in 1H19 despite expected consolidation in coal prices in 2019. In addition, we also expect the company to book higher earnings as Kestrel will provide higher saleable coal production. Maintain BUY with an unchanged target price of IDR2,000 (based on DCF valuation).

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Integra Indocabinet: Solid export growth to continue

(NOT RATED)

Integra targets strong revenues growth in FY19, as the company stands to benefit, it believes, from the trade tensions between China and the US. The company also has sizable forest concessions in Indonesia, giving it access to a rich variety of woods. These strengths, coupled with the company's proven track-record in the industry, bode well for sustained orders from export markets going forward.

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MARKET NEWS
MACROECONOMY

- Bank Indonesia: Indonesia may post a trade surplus in Feb19
- Government: Wealth of Indonesian citizens hidden overseas may reach IDR 1,300tn

CORPORATE

- PEHA to conduct a rights issue with targeted proceeds of IDR1tn
- KKR sells IDR 871 billion of JPFA shares

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- Surya Citra Media: Extending its business to digital entertainment [Click here](#)
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KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	6.413	0,6	3,5	460
Thailand	1.636	(0,2)	4,6	1.196
Philippines	7.750	(0,2)	3,8	101
Malaysia	1.675	(0,2)	(0,9)	584
Singapore	3.198	0,1	4,2	727
Regional				
China	2.991	(1,2)	19,9	89.430
Hong Kong	28.851	0,2	11,6	12.071
Japan	21.287	(0,0)	6,4	11.495
Korea	2.156	0,3	5,6	3.602
Taiwan	10.349	(0,2)	6,4	3.696
India	37.755	0,0	4,7	441
NASDAQ	7.631	(0,2)	15,0	78.237
Dow Jones	25.710	0,0	10,2	8.570

CURRENCY AND INTEREST RATE

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US\$	14.278	(1,0)	(1,3)	0,8
BI7DRRR	%	6,00	-	-	-
10y Gov	Indo bond	7,83	(0,1)	(0,2)	(0,2)

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	95	0,1	(0,4)	(7,3)
Gold	US\$/toz	1.296	0,0	(1,9)	1,1
Nickel	US\$/mt.ton	13.118	0,8	6,4	23,7
Tin	US\$/mt.ton	21.227	(0,8)	0,3	8,7

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2.219	0,2	(1,4)	(6,2)
Corn	US\$/mt.ton	131	1,8	(2,3)	(1,2)
Oil (WTI)	US\$/barrel	59	(0,1)	5,3	29,0
Oil (Brent)	US\$/barrel	67	(0,5)	4,1	25,0
Palm oil	MYR/mt.ton	1.879	(1,1)	(11,5)	(3,8)
Rubber	US\$/kg	148	0,4	8,8	18,5
Pulp	US\$/tonne	1.205	N/A	2,8	20,5
Coffee	US\$/60kgbag	77	(0,4)	0,1	0,3
Sugar	US\$/MT	339	(0,1)	(0,9)	1,9
Wheat	US\$/ton	123	1,2	(11,3)	(11,3)
Soy Oil	US\$/lb	30	(1,2)	(1,1)	7,3
Soy Bean	US\$/by	899	(0,3)	(0,6)	1,8

Friday, 15 March 2019

BUY
Maintain

Last price (IDR) 1,455
Target Price (IDR) 2,000
Upside/Downside +37.5%
Previous Target Price (IDR) 2,000

Stock Statistics

Sector Coal Mining
Bloomberg Ticker ADRO IJ
No of Shrs (mn) 31,986
Mkt. Cap (IDRbn/USDmn) 46,540/3,260
Avg. daily T/O (IDRbn/USDmn) 100.5/7.0

Major shareholders (%)

Adaro Strat. Inv. 43.9
Estimated Free Float 42.9
Estimated free float 42.9

EPS Consensus (USDcents)

	2019F	2020F	2021F
Danareksa	1.4	1.3	1.2
Consensus	1.3	1.3	1.5
Danareksa/Cons	4.4	0.0	(16.8)

ADRO relative to JCI Index



Source : Bloomberg



Stefanus Darmagiri

(62-21) 29 555 831

stefanus.darmagiri@danareksa.com

Adaro Energy(ADRO IJ)

Recovery in store

We expect the improvement in low-CV coal prices since the beginning of the year to help Adaro Energy (ADRO) book solid coal ASP in 1H19 despite expected consolidation in coal prices in 2019. In addition, we also expect the company to book higher earnings as Kestrel will provide higher saleable coal production. Maintain BUY with an unchanged target price of IDR2,000 (based on DCF valuation).

Solid ASP in 1H19 thanks to recovery in the low CV coal price. Although we expect consolidation in coal prices in 2019, we believe the recent improvement in the low CV coal price for 4,200 kcal/kg GAR and 5,000 kcal/kg GAR (+23 - 32% ytd) will help the company to maintain solid ASP in 1H19. Nonetheless, we maintain our ASP price assumption for ADRO in 2019.

Flattish cash cost of production amid a lower stripping ratio for 2019. While the stripping ratio is expected to decline to 4.6x in 2019 from 5.1x in 2018, the management indicates a similar cash cost of production from thermal coal in 2019 compared to 2018 at USD29/ton as the company expects higher fuel costs. To reduce volatility in fuel costs, the management indicates that it will hedge about 20% of its 2019 fuel requirement.

Expect sturdy earnings in 2019 supported by the Kestrel acquisition. We expect solid earnings for ADRO in 2019 following the acquisition of Kestrel in Aug 2018 owing to: a) the management's indication of 40% yoy higher saleable coal production of around 6.7mn tons from Kestrel in 2019 from 4.8mn tons in 2018 as a result of efficiency improvements which will boost the earnings of Kestrel this year and b) the absence of one-time non-operational transaction and transition costs for the acquisition that were booked in 2018. Going forward, the management has indicated that coal production from Kestrel will improve further to 10mn tons in the next three years.

Maintain BUY with an unchanged target price of IDR2,000 (based on DCF valuation with WACC of 10.2%). We continue to like the company since the recent improvement in the low CV coal price should help to sustain ASP in 1H19 and because the medium to long-term earnings may be enhanced by business diversification beyond thermal coal (in coking coal and power plants). Our target price implies 10.3x 2019F PE.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (USDmn)	3,258	3,620	3,423	3,413	3,376
EBITDA (USDmn)	1,293	1,370	1,199	1,180	1,168
EBITDA Growth (%)	48.8	5.9	(12.5)	(1.6)	(1.0)
Net profit (USDmn)	483	418	434	416	399
EPS (USDcents)	1.5	1.3	1.4	1.3	1.2
EPS growth (%)	44.4	(13.6)	3.9	(4.1)	(4.1)
BVPS (USDcents)	10.8	11.4	12.1	12.7	13.3
DPS (USDcents)	0.3	0.8	0.7	0.7	0.7
PER (x)	6.7	7.8	7.5	7.8	8.2
PBV (x)	0.9	0.9	0.8	0.8	0.8
Dividend yield (%)	3.1	7.7	6.4	6.7	6.4
EV/EBITDA (x)	2.7	2.7	3.1	3.1	2.9

Source : ADRO, Danareksa Estimates

Friday, 15 March 2019
Not Rated

Integra Indocabinet (WOOD IJ)

Solid export growth to continue

Last price (IDR)

870

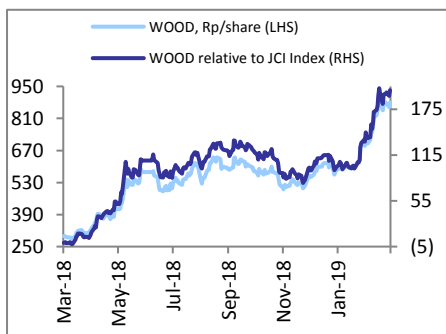
Integra targets strong revenues growth in FY19, as the company stands to benefit, it believes, from the trade tensions between China and the US. The company also has sizable forest concessions in Indonesia, giving it access to a rich variety of woods. These strengths, coupled with the company's proven track-record in the industry, bode well for sustained orders from export markets going forward.

Stock Statistics

Sector	Manufacturer
Bloomberg Ticker	WOOD IJ
No of Shrs (mn)	6,306
Mkt. Cap (IDRbn/USDmn)	5,549/389
Avg. daily T/O (IDRbn/USDmn)	19.7/1.4
Major shareholders (%)	
PT Integra Indo Lestari	78.6
Estimate free float	21.4

Strong FY18 earnings growth of 36% yoy. We met with the management of Integra and learnt that the company provided guidance for FY18 revenues growth of 18% yoy to IDR2tn. WOOD, which mainly produces fully-assembled and knock-down furniture, has been buoyed by growing demand from the US, where it serves major retailers such as Target, Costco, CTI and Ikea. Export revenues are crucial to the company (66-78% of total revenues in 2016-18), making WOOD a beneficiary of the rupiah's weakness in 2018. Combined with a higher price for shorea (Meranti), the gross margin widened to 35.6% in FY18 from 32.3% in FY17. This filtered through to a strong FY18 bottom line of IDR236bn, +36% yoy.

WOOD relative to JCI Index



Solid top line growth of 50% yoy expected in 2019. The company targets 50% yoy revenues growth in 2019. To this end, the company seeks to raise the utilization rate at its floor based/plywood facility, increase the production of rattan furniture, and launch 3 new products (White Prime Wood Molding/Gesso, Wooden Blinds and Metal Furniture). For Gesso, the company should benefit from having access to various types of Indonesian wood such as Mahogany and Pine to tap the USA market. For wooden blinds, various types of Hardwood can be used including Mahogany, Pine and Albazia. Meanwhile, Metal furniture will be sold to both export and domestic markets. As the US has slapped 10% tariffs on products imported from China, US demand for the company's products may increase. In addition, Integra also plans to broaden its export markets to the UK, EU, India, South East Asia, the Middle East & Africa.

Benefiting from US-China trade tensions. The company enjoys competitive advantages as an integrated timber manufacturer given: (1) 163,425ha of forest concessions – FSC certified to tap export markets, (2) sizeable facilities, (3) a 30-year track-record in the industry combined with (4) a proven track-record and good relationships with international retailers. With China subject to US tariffs, WOOD stands to benefit as one of the many furniture exporters in Indonesia. At its current share price, WOOD trades at FY18 PE of 22.6x.

Key Financials

	2014	2015	2016	2017	9M18
Revenue, IDRbn	996	1,119	1,323	1,735	1,379
EBITDA, IDRbn	120	173	354	444	385
EBITDA Growth (%)	n/a	44.7	104.3	25.4	16.5
Net profit, IDRbn	15	38	141	174	181
EPS, IDR	n/a	n/a	n/a	31	39
EPS growth (%)	n/a	n/a	n/a	n/a	31.4
BVPS, IDR	n/a	n/a	n/a	302	335
DPS, IDR	n/a	n/a	n/a	n/a	n/a
PER (x)	n/a	n/a	n/a	28.4	22.6
PBV (x)	n/a	n/a	n/a	2.9	2.6
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
EV/EBITDA (x)	57.6	39.8	19.5	15.5	13.9

Source : Bloomberg, Company



Natalia Sutanto

(62-21) 2955 5888 ext.3508

natalia.sutanto@danareksa.com

MARKET NEWS

MACROECONOMY

Bank Indonesia: Indonesia may post a trade surplus in Feb19

Bank Indonesia (BI) said that Indonesia may record a trade surplus in Feb19 due to the expectation of falling imports as BI increased its benchmark rate by 175bps in 2018 and because completed infrastructure projects should facilitate higher production and more effective distribution of raw materials. In addition, BI foresees higher exports supported by rupiah stability. The trade tensions between the US and China are seen by BI as an opportunity for Indonesia to increase exports to both countries. (Investor Daily)

Government: Wealth of Indonesian citizens hidden overseas may reach IDR 1,300tn

Concerning the implementation of the automatic exchange of information (AEOI) program, the government has sent financial information regarding tax to 54 countries. In exchange, the government will receive financial information from 66 countries. The government believes that this number will increase to 94 countries in the future. The government expects that this program will increase tax revenues as the tax amnesty period is over and the owner of unreported assets is subject to a fine of 200% of unpaid tax. The government believes that tax revenues of IDR 390tn may be generated. (Kontan)

CORPORATE

PEHA to conduct a rights issue with targeted proceeds of IDR1tn

Pharos (PEHA) plans to integrate its pharmaceutical business with hospitals and pharmacies this year. Therefore, the company will spend around IDR255bn on capex in 2019. PEHA also plans to issue new shares through a rights issue with targeted proceeds of IDR1tn. The company will distribute IDR92.6bn of dividends from FY18's earnings (70% payout, 4.8% yield). For 2019, the company targets top and bottom line growth of 20-30% and 15-20% yoy, respectively. (Kontan, Investor Daily)

KKR sells IDR 871 billion of JPFA shares

KKR Jade Investments has divested its ownership in Japfa Comfeed Indonesia (JPFA). In yesterday's crossing, KKR sold 396 million shares at a price of IDR 2,200 per share. This transaction is the second crossing this year. The previous KKR crossing was done on 20 February 2019 for 385 million shares at a price of IDR 2,200 per share. After the two crossings, KKR's ownership in JPFA has been reduced to c.5% from 11.98% previously.

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		14-Mar-19	13-Mar-19					
Matahari Department Store	LPPF	3.700	3.450	7,2	2,8	(39,8)	(33,9)	BUY
Matahari Putra Prima	MPPA	268	250	7,2	(5,6)	-	76,3	SELL
Malindo Feedmill	MAIN	1.595	1.505	6,0	3,6	(7,8)	14,3	HOLD
Sampoerna Agro	SGRO	2.450	2.320	5,6	-	4,7	3,4	BUY
Wika Beton	WTON	595	565	5,3	8,2	37,7	58,2	BUY
Bank Tabungan Negara	BBTN	2.400	2.300	4,3	2,1	(3,2)	(5,5)	BUY
Erajaya Swasembada	ERAA	2.080	2.010	3,5	4,0	6,4	(5,5)	BUY
Charoen Pokphand	CPIN	7.550	7.300	3,4	4,9	1,0	4,5	SELL
Bank Mandiri	BMRI	6.925	6.725	3,0	(2,1)	(3,5)	(6,1)	BUY
Astra International	ASII	7.275	7.100	2,5	(0,7)	(4,3)	(11,6)	BUY

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		14-Mar-19	13-Mar-19					
Japfa Comfeed	JPFA	2.310	2.400	(3,8)	3,6	(14,4)	7,4	HOLD
Indo Tambangraya Megah	ITMG	22.800	23.300	(2,1)	2,2	9,6	12,6	BUY
Indofood	INDF	7.075	7.175	(1,4)	(1,7)	(4,7)	(5,0)	BUY
Mitra Adi Perkasa	MAPI	1.065	1.080	(1,4)	1,9	3,9	32,3	BUY
HM Sampoerna	HMSP	3.800	3.840	(1,0)	0,3	2,7	2,4	BUY
Astra Agro Lestari	AALI	12.500	12.600	(0,8)	(0,4)	(8,1)	5,7	BUY
Gudang Garam	GGRM	90.825	91.550	(0,8)	(1,3)	8,3	8,6	BUY
Mayora Indah	MYOR	2.620	2.640	(0,8)	(1,1)	0,8	-	HOLD
Bumi Serpong Damai	BSDE	1.355	1.365	(0,7)	(0,4)	2,7	8,0	BUY
Kimia Farma	KAEF	2.960	2.970	(0,3)	(5,4)	(2,0)	13,8	SELL

Sources: Bloomberg

PREVIOUS REPORTS

- Surya Citra Media: Extending its business to digital entertainment Waskita Beton Precast: Becoming more independent, Pembangunan Perumahan: Flat earnings despite decent revenues growth [SnapShot20190314](#)
- Telco Price Tracker: XL making a strong bid for monetization, Indocement Tungal Prakarsa: Flattish sales in Feb 19 [SnapShot20190313](#)
- Danareksa Research Institute: February Outlook: Remain Sluggish [SnapShot20190312](#)
- Media: MNCN showing non-prime time dominance, Bukit Asam (PTBA): Higher earnings in 2018 despite soft profit in 4Q18, Aneka Tambang (ANTM): Weak volume and lower nickel prices hit profits in 4Q18, Timah (TINS): Strong volume and asset revaluation boosted profits, Surya Semesta Internusa (SSIA): Ending the year on a high note [SnapShot20190311](#)
- Banking: Temporary tightening of liquidity, Poultry: Lower broiler prices coupled with high corn costs [SnapShot20190308](#)
- Wijaya Karya Beton: Synergy and construction service to boost growth [SnapShot20190306](#)
- Adaro Energy: Impairment losses dragged down net profits, KIMIA FARMA : Solid results but a rich valuation, Indosat Ooredoo: Revenues show promise but OPEX are rising too [SnapShot20190305](#)
- Indo Tambangraya: Solid dividend play, Bank Central Asia: Still conservative, Japfa Comfeed Indonesia: Strong earnings from resilient ASP [SnapShot20190301](#)
- Astra International: Solid earnings in 2018 despite weak in 4Q18, United Tractors : Solid 2018 earnings amid soft in 4Q18 [SnapShot20190228](#)

PT Danareksa Sekuritas

Jl. Medan Merdeka Selatan No. 14
Jakarta 10110
Indonesia
Tel (62 21) 29 555 888
Fax (62 21) 350 1709

Equity Research Team

Helmy Kristanto

helmy.kristanto@danareksa.co.id
(62-21) 2955 888 ext. 3500
Head of Research, Strategy

Stefanus Darmagiri

stefanus.darmagiri@danareksa.co.id
(62-21) 2955 888 ext. 3530
Auto, Coal, Heavy Equip, Metal

Natalia Sutanto

natalia.sutanto@danareksa.com
(62-21) 29555 888 ext.3508
Consumer, Tobacco, Property

Maria Renata

maria.renata@danareksa.co.id
(62-21) 29555 888 ext.3513
Construction

Eka Savitri

Eka.savitri@danareksa.co.id
(62-21) 29555 888 ext.3506
Banking

Niko Margaronis

niko.margaronis@danareksa.co.id
(62-21) 29555 888 ext.3512
Telco, Tower

Yudha Gautama

yudha.gautama@danareksa.co.id
(62-21) 29555 888 ext.3509
Plantation, Property

Victor Stefano

victor.stefano@danareksa.co.id
(62-21) 29555 888 ext.3503
Poultry, Property

Ignatius Teguh Prayoga

ignatius.prayoga@danareksa.co.id
(62-21) 29555 888 ext.3511
Media, Research Associate

Sales team

Vera Ongyono

vera.ongyono@danareksa.co.id
(62-21) 29555 888 ext. 3120

Ehrliech Suhartono

ehrliech@danareksa.co.id
(62-21) 29555 888 ext. 3132

Laksmi Armandani

laksmi@danareksa.co.id
(62-21) 29555 888 ext. 3125

Tuty Sutopo

tuty@danareksa.co.id
(62-21) 29555 888 ext. 3121

Upik Yuzarni

upik_y@danareksa.co.id
(62-21) 29555 888 ext. 3137

Wisnu Budhiargo

Wisnu.budhiargo@danareksa.co.id
(62-21) 29555 888 ext. 3117

Rendy Ben Philips

rendy.philips@danareksa.co.id
(62-21) 29555 888 ext. 3148

Adeline Solaiman

adeline.solaiman@danareksa.co.id
(62-21) 29555 888 ext. 3503

Thalia Kadharusman

thalia.kadharusman@danareksa.co.id
(62-21) 29555 888 ext. 3124

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