



**HARTADINATA ABADI**  
• JEWELLERY MANUFACTURER •

**BUY**

Target Price : **IDR 460**

## Stock Data

Curent Price : IDR266  
52wk Range H-L : IDR324-248  
Share Outstanding : 4,605 mn  
Free Float (%) : 23.99%  
Mkt Capitalization : 1,224.99 (IDR bn)

## Major Shareholders

PT Terang : 73.01%  
Fendy Wijaya : 2.99%  
ESA : 0.01%  
Public : 23.99%



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## PT Hartadinata Abadi Tbk (HRTA)

### Jewelry Sector

## 2018: Golden Moment

### Satisfactory Performance in 1Q18

HRTA displayed satisfactory performance in 1Q18, with a 22.44% increase in revenues YoY, from IDR601 billion in 1Q17 to IDR736 billion in 1Q18. This is in line with our expectations, representing 25.10% of MNCS' FY18E estimate. The rise in sales was supported by their Wholesale and Store Division, which recorded growth by 21.04%/35.46% YoY respectively, contributing 89.03%/10.30% to total sales. The franchise business run by HRTA began showing results at the end of FY17, contributing IDR504 million. HRTA also successfully maintained their operational performance and cost efficiency, holding their gross margin at 9.32% (as opposed to the 9.34% in 1Q17). Meanwhile, net profit increased by 28.58% YoY at IDR38.03 billion in 1Q18 (as opposed to IDR29.58 billion in 1Q17) maintaining a 5.17% margin, which reflects 28.44% of MNCS estimate.

### Investment Strategy : Continuous Innovation and Robust Expansion

We believe that healthy financial performance will be sustained along the year with the opening of new outlets, and with several new products launching, which will boost revenue growth through FY18E, reaching IDR2.93 trillion (+18.13% YoY). HRTA launched local-patterned jewelry to add to the 1Q18 signature collection. Other than applying product development strategies, HRTA is also tracking various jewelry exhibitions to build their brand in the market. As an effort to improve its competitiveness, HRTA is already entering new markets by opening distribution channels such as Matahari Department Store. As of April 2018, We noted that HRTA had opened 33 retail outlets spread across Batam, Jambi, Jakarta, Semarang, Surabaya, Bali and Makassar.

### Recommendation : BUY with Target Price IDR460

We recommend **BUY** for HRTA with **TP: IDR460**, which implies PE/PBV of 14.12x/1.71x in FY18E and 11.53x/1.53x in FY19F. We believe that the massive expansion and adoption of business strategies resulting in better margins will maintain the company's growth. Meanwhile, risks that could potentially hamper performance growth includes: 1) Company expansion strategies not running as expectations; 2) Highly intensive working capital; 3) Gold price fluctuations; 4) Foreign exchange risk.

### Key Financial Highlight

In billion IDR	FY15	FY16	FY17	FY18E	FY19F
Revenues	1,733.58	2,196.89	2,482.76	2,932.89	3,505.23
EBITDA	147.60	184.12	197.91	247.27	322.27
Net Income	70.13	171.58	110.30	133.71	163.69
ROA (%)	7.64	16.02	7.78	7.06	7.51
ROE (%)	17.88	30.14	11.07	12.13	13.28
PE (x)	13.07	5.34	9.85	8.13	6.64
PBV (x)	2.34	1.61	1.09	0.99	0.88

Source: Bloomberg, MNCS as of June 21, 2018

## Healthy Financial in 1Q18

HRTA displayed satisfactory performance in 1Q18, with a 22.44% increase in revenues YoY, from IDR601 billion in 1Q17 to IDR736 billion in 1Q18. This is in line with our expectations, representing 25.10% of MNCS' FY18E estimate. The rise in sales was supported by the Wholesale Division, with a recorded growth of 21.04% YoY contributing 89.03% to total sales. The Store Division which contributed 10.30% has risen by 35.46% YoY. The franchise run by HRTA began showing results at the end of FY17 contributing IDR504 million. The gross profit margins of the wholesale and store business was maintained at 8.92%/9.34% respectively.

HRTA also successfully maintained operational performance and cost efficiency, holding their gross margin at 9.32% (vs 9.34% in 1Q17). EBITDA grew 19.30% YoY to IDR62.74 billion with a maintained margin of 8.52%. Meanwhile, net profit increased by 28.58% YoY at IDR38.03 billion in 1Q18 (vs IDR29.58 billion in 1Q17) with a maintained margin of 5.17%, reflecting 28.44% of MNCS' estimate.

We conclude that a healthy financial performance will be sustained throughout the year. From our point of view, the opening of new outlets, along with the launch of several new products, will be able to boost revenue growth through FY18E, reaching IDR2.93 trillion (+18.13% YoY).

Exhibit 01. 1Q18 Financial Results

IDR Billion	1Q17	4Q17	1Q18	QoQ	YoY	FY18E MNCS	% MNCS
<b>Sales</b>	<b>601.20</b>	<b>622.70</b>	<b>736.14</b>	<b>18.22%</b>	<b>22.44%</b>	<b>2,932.89</b>	<b>25.10%</b>
COGS	545.05	566.70	667.50	17.79%	22.47%		
<b>Gross Profit</b>	<b>56.15</b>	<b>56.00</b>	<b>68.63</b>	<b>22.56%</b>	<b>22.23%</b>	<b>273.19</b>	<b>25.12%</b>
Gross Profit Margin	9.34%	8.99%	9.32%			9.31%	
<b>Income from Operations</b>	<b>51.30</b>	<b>27.60</b>	<b>60.87</b>	<b>120.55%</b>	<b>18.65%</b>	<b>236.46</b>	<b>25.74%</b>
EBIT Margin	8.53%	4.43%	8.27%			8.06%	
<b>PBT</b>	<b>39.48</b>	<b>19.50</b>	<b>50.80</b>	<b>160.53%</b>	<b>28.68%</b>	<b>178.28</b>	<b>28.50%</b>
<b>Net Profit</b>	<b>29.58</b>	<b>15.60</b>	<b>38.03</b>	<b>143.80%</b>	<b>28.58%</b>	<b>133.71</b>	<b>28.44%</b>
Net margin	4.92%	2.51%	5.17%			4.16%	
<b>EBITDA</b>	<b>52.59</b>	<b>29.10</b>	<b>62.74</b>	<b>115.61%</b>	<b>19.30%</b>	<b>247.27</b>	<b>25.37%</b>
EBITDA Margin	8.75%	4.67%	8.52%			8.43%	

Source : Company, Bloomberg, MNCS

**Continuous Innovation:  
Lifting Local Culture to  
Define a Signature Product**

Management believes that the Indonesian economy will reliably grow above 5% per annum, supported by the ballooning middle-class population and recovering consumer purchasing powers, ready to aid the jewelry industry's growth, especially in Jakarta, an area with great potential to become the center of the jewelry industry in the Asia. In addition, golden jewelries offer attractive value growth for investments. Thus, HRTA seized the opportunity, using their product and market development strategies, tracking various jewelry exhibitions, in order to build their brand in the market.

HRTA launched local-patterned jewelry during the Jakarta International Jewelry Fair, held at the Jakarta Convention Center on 19-22 April 2018. This important event offers opportunities for players and business owners to gather, trade and exchange information on an international level. HRTA featured a range of superior products inspired by Indonesia's natural and cultural wealth. Its jewelry collection, themed "From Hartadinata to Indonesia" is inspired by komodo dragons, birds of paradise, the Loreng tiger, tropical rainforests, batik motifs, the Borobudur Temple, traditional Minangkabau houses and Jepara carvings. The overall quality and design of gold jewelry produced by local designers is held in high regards.

Exhibit 02. Hartadinata Abadi Press Conference at Jakarta International Jewelry Fair 2018



Source : MNCS

Exhibit 03. HRTA launch various new product at Jakarta International Jewelry Fair 2018



Source : MNCS

Exhibit 04. "From Hartadinata to Indonesia" Limited Edition Catalogue 2018



Source : Company, MNCS

### Entering New Markets by Opening New & Accessible Distribution Channels

HRTA will also continue to expand its market into West Java, DKI Jakarta, Central Java, East Java, Palembang, Batam, Kalimantan and Makassar, supported by 600 jewelry stores spread across the region. HRTA also works with Matahari Department Store to improve its competitiveness, entering new markets by opening affordable distribution channels. Working together with Matahari Department Store outlets shows commitment and is part of Hartadinata's investment strategies aiming to provide convenience in offering contemporary quality gold jewelry to keep up with the market's modern preferences. Their booths offers a variety of jewelry and designs including bracelets, rings, necklaces, with Hartadinata's signature products. "Gerai" also provides post-sales support services for customers in every process of their transactions.

The Company has 3 brands with different products, which are, ACC gold shop that targets the lower-middle market, Celine Jewelry that sells gold jewelry with diamond accessories, targeting the upper-middle market, and Claudia Perfect Jewelry, targeting an even higher market, providing exclusive fashion jewelry and wedding rings.

By year-end FY18E, HRTA will open around 20 retail stores, allocating IDR300 billion of capex in FY18E. Note that around IDR3 billion is necessary for a new store with a building area of 15 square meters. As of April 2018, HRTA had already opened 33 retail outlets, spread across Batam, Jambi, Jakarta, Semarang, Surabaya, Bali and Makassar.

Exhibit 05. Opening the ACC Gold Store Stores at Matahari Department Store, Solo-Central Java



Source : Company

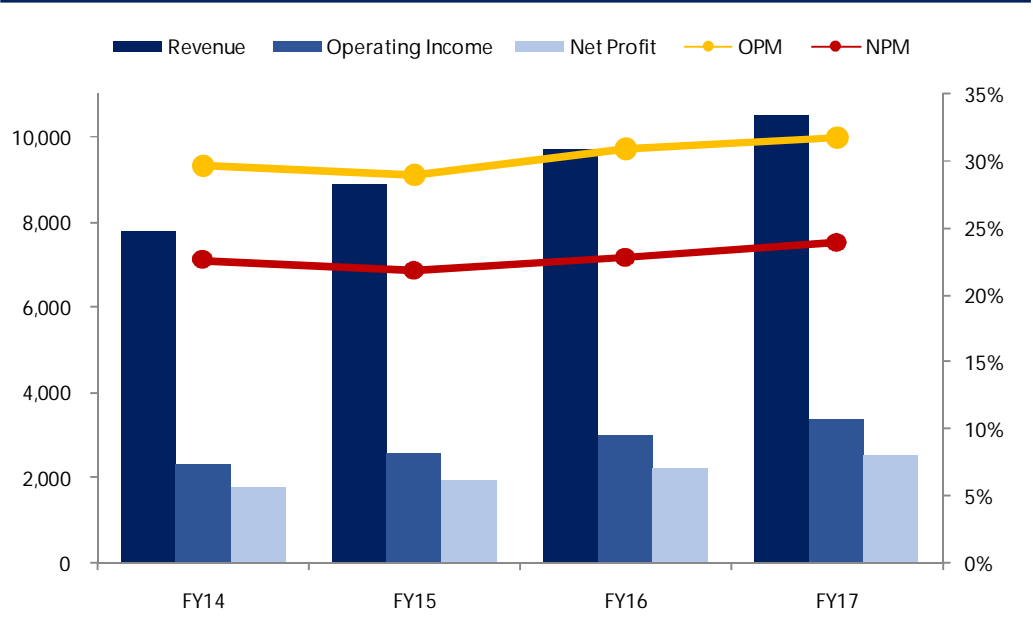
**Pawn Businesses  
("Pegadaian") Offer Better  
Margin**

The pawnshop business has a long history in Indonesian society. However, the Financial Services Authority (OJK) revealed that only 24 out of 585 shops are registered and licensed by the financial authorities in Indonesia. As of May 2018, listed pawnshops include 14 companies, of which only 10 are licensed. The rise of the pawn business in Indonesia cannot be separated from a steep demand for quick funding: the public can access cash immediately by pledging an asset as collateral (required when a lender demands assurance that it will not lose money lent out). Electronic goods, motor vehicles and gold jewelry are commonly pawned by people who needs quick cash. Although pawnshops have low barrier of entry, setting up one is still attractive. It is supported by the huge market with high demands and profit margins.

On July 29, 2016, OJK issued OJK (or POJK) Regulation Number 31 / POJK.05 Year 2016 regarding Pawnshops, wherein it is stated that the deadline for a pawnshop to secure a business license is three years after the POJK is issued, or no later than July 29, 2019. Perceiving this as an opportunity, on February 13, 2018 HRTA formed a subsidiary engaged in the pawnshop business, namely, PT Gadai Cahaya Dana Abadi. This gold pawn business is another way for HRTA to gain market shares.

A study of the pawn industry in Indonesia revealed that PT Pegadaian (Persero), as the largest pawn company in the nation, consistently recording brilliant financial performance. It posted a revenue of 10.49% YoY CAGR, FY14-FY17, with an average four-year net profit growth of 12.59% YoY. The pawn business also offers attractive margins: PT Pegadaian (Persero) recorded operating margin and net profit margin in FY17 as 31.72%/23.89% respectively.

Exhibit 06. PT Pegadaian (Persero) Financial Highlight in Rp billion



Source : PT Pegadaian (Persero), MNCS

**Recommendation : BUY with  
Target Price IDR460**

We recommend **BUY** for HRTA with **TP: IDR460**, which implies PE/PBV of 14.12x/1.71x in FY18E and 11.53x/1.53x in FY19F. We believe that the massive expansion and adoption of business strategies resulting in better margins will maintain the company's growth. Meanwhile, risks that could potentially hamper performance growth includes: 1) Company expansion strategies not running as expectations; 2) Highly intensive working capital; 3) Gold price fluctuations; 4) Foreign exchange risk.

**Exhibit 07. Peers Comparison: Regional Jewelry Manufacturers and Retailers**

No	Company	Mkt Cap (USD mn)	PE (x)		PBV (x)		P/S (x)		EPS Growth (%)		Gross Margin (%)		Net Profit Margin (%)	
			Current	FY18E	Current	FY18E	Current	FY18E	FY17	FY18E	FY17	FY18E	FY17	FY18E
1	RAJESH EXPORTS	2,648.19	14.25	N/A	2.51	N/A	0.09	N/A	16.3	1.8	N/A	N/A	0.51	0.67
2	LUK FOOK	2,360.94	16.68	15.62	2.01	1.95	1.35	1.29	8.6	31.6	25.59	25.66	7.94	9.39
3	CHOW TAI FOOK	12,337.97	23.63	21.86	2.90	2.67	1.63	1.51	-20.6	42.4	29.2	27.41	5.96	6.92
4	LAO FENG XIANG	2,433.20	9.46	8.08	1.84	1.66	0.27	0.36	12.2	23	7.94	8.74	2.87	3.04
5	GUANGDONG CHJ	1,126.64	25.22	19.39	2.09	1.90	2.20	1.97	30.4	21.8	36.46	39.49	9.35	10.01
6	ORIENTAL WATCH	186.92	25.25	N/A	0.67	N/A	0.46	N/A	N/A	723.2	16.18	20.99	0.52	4.80
7	EMPEROR WATCH	464.30	22.83	N/A	0.84	N/A	0.86	N/A	N/A	N/A	26.73	N/A	3.92	N/A
8	ZHEJIANG MING	447.25	28.24	23.26	0.92	0.88	0.75	0.69	N/A	166.4	9.83	10.13	2.38	2.93
9	PHU NHUAN	741.08	21.45	19.54	5.30	4.63	1.38	1.16	58.6	24.3	17.42	18.15	6.60	6.70
10	SHENZHEN IDEAL	370.15	40.96	N/A	1.65	N/A	1.27	N/A	-25.4	N/A	8.54	N/A	3.29	N/A
11	CHOW TAI SENG	2,371.24	24.21	20.85	7.89	4.29	3.79	3.26	26.8	16.1	31.69	33.55	15.72	77.51
12	PC JEWELLER LTD	843.05	10.36	N/A	1.48	N/A	0.58	N/A	-1.3	26.6	N/A	N/A	4.97	5.57
13	CHOW SANG-	1,352.12	12.1	11.02	1.05	0.99	0.63	0.59	10.2	16.2	23.99	24.32	5.27	5.33
14	TSUTSUMI	339.54	54.89	N/A	0.47	N/A	1.87	N/A	-58.6	286.4	52.09	54.51	-4.80	3.41
	<b>MEAN</b>		<b>23.54</b>	<b>17.45</b>	<b>2.26</b>	<b>2.37</b>	<b>1.22</b>	<b>1.35</b>						
	<b>MEDIAN</b>		<b>23.23</b>	<b>19.46</b>	<b>1.75</b>	<b>1.93</b>	<b>1.06</b>	<b>1.23</b>						

Source : Bloomberg as of 21 June 2018, MNCS

Exhibit 08. Financial Projections

Income Statement						Balance Sheet					
IDR Billion	FY15	FY16	FY17	FY18E	FY19F	IDR Billion	FY15	FY16	FY17	FY18E	FY19F
<b>Revenues</b>	<b>1,733.58</b>	<b>2,196.89</b>	<b>2,482.76</b>	<b>2,932.89</b>	<b>3,505.23</b>	<b>Current Assets</b>	<b>822.63</b>	<b>976.03</b>	<b>1,312.63</b>	<b>1,684.55</b>	<b>1,870.49</b>
<b>COGS</b>	<b>1,576.14</b>	<b>1,990.92</b>	<b>2,257.19</b>	<b>2,659.70</b>	<b>3,154.26</b>	Cash and Cash Equivalents	17.05	21.07	86.87	296.39	217.35
<b>Gross Profit</b>	<b>157.44</b>	<b>205.97</b>	<b>225.57</b>	<b>273.19</b>	<b>350.96</b>	Trade Receivable	495.62	601.36	661.19	781.06	933.48
<b>Operating Expense</b>	<b>16.10</b>	<b>28.25</b>	<b>33.94</b>	<b>36.73</b>	<b>44.03</b>	Inventories	309.92	353.32	558.69	600.16	711.37
Selling Expenses	9.30	11.10	12.47	13.97	16.83	Others current Assets	0.04	0.28	5.87	6.94	8.29
General & Administrative	5.58	14.91	21.72	22.76	27.20	<b>Non-Current Assets</b>	<b>95.05</b>	<b>95.07</b>	<b>105.82</b>	<b>209.43</b>	<b>309.04</b>
<b>Operating Profit</b>	<b>141.33</b>	<b>177.72</b>	<b>191.63</b>	<b>236.46</b>	<b>306.94</b>	Fix Asset-net	87.88	81.48	95.25	196.94	294.11
<b>EBITDA</b>	<b>147.60</b>	<b>184.12</b>	<b>197.91</b>	<b>247.27</b>	<b>322.27</b>	Other Non-Current Assets	7.17	13.60	10.57	12.49	14.93
Interest Expense	48.45	50.81	45.43	59.17	89.68	<b>TOTAL ASSETS</b>	<b>917.68</b>	<b>1,071.11</b>	<b>1,418.45</b>	<b>1,893.98</b>	<b>2,179.53</b>
Interest Income	0.40	0.37	0.99	0.99	0.99	<b>Current Liabilities</b>	<b>507.48</b>	<b>489.56</b>	<b>347.06</b>	<b>409.98</b>	<b>489.96</b>
Other	-	-	-	-	-	Account Payable	0.06	0.00	1.95	2.30	2.73
<b>Profit Before Tax</b>	<b>93.28</b>	<b>127.28</b>	<b>147.19</b>	<b>178.28</b>	<b>218.25</b>	Short Term Debt	414.89	444.89	285.00	336.67	402.37
Tax Expense (Benefit)	23.15	(44.30)	36.88	44.57	54.56	Other current liabilities	92.53	44.66	60.11	71.00	84.86
Net Income Before MI	70.13	171.58	110.30	133.71	163.69	<b>Non-Current Liabilities</b>	<b>17.92</b>	<b>12.25</b>	<b>74.87</b>	<b>381.41</b>	<b>457.11</b>
Minority Interest	-	-	-	-	-	Long-term Liabilities-Net	13.55	6.75	71.04	376.88	451.70
<b>Net Income</b>	<b>70.13</b>	<b>171.58</b>	<b>110.30</b>	<b>133.71</b>	<b>163.69</b>	Other Non-Current Liabilities	4.37	5.50	3.83	4.53	5.41
EPS (full amount)	20.35	49.80	26.99	32.72	40.06	<b>TOTAL EQUITY</b>	<b>392.29</b>	<b>569.30</b>	<b>996.52</b>	<b>1,102.59</b>	<b>1,232.46</b>
						<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>917.68</b>	<b>1,071.11</b>	<b>1,418.45</b>	<b>1,893.98</b>	<b>2,179.53</b>

Cash Flow						Ratios					
IDR Billion	FY15	FY16	FY17	FY18E	FY19F	Ratio	FY15	FY16	FY17	FY18E	FY19F
<b>CFO Total</b>	<b>(122.52)</b>	<b>(19.32)</b>	<b>(136.81)</b>	<b>(6.64)</b>	<b>(71.68)</b>	Revenue Growth (%)	29.79	26.73	13.01	18.13	19.51
Net Income	70.13	171.58	110.30	133.71	163.69	Operating Profit Growth (%)	30.94	25.74	7.83	23.40	29.81
Depreciation	6.27	6.40	6.29	10.81	15.33	Net Profit Growth (%)	20.62	144.67	(35.71)	21.22	22.42
Change in WorkingCapital	(224.77)	(149.19)	(263.25)	(160.99)	(263.20)	Current Ratio (%)	162.10	199.37	378.21	410.89	381.76
Change in Others	25.86	(48.11)	9.86	9.83	12.50	Quick Ratio (%)	101.03	127.20	217.23	264.50	236.57
<b>CFI Total</b>	<b>(0.75)</b>	<b>(6.43)</b>	<b>(17.03)</b>	<b>(114.42)</b>	<b>(114.94)</b>	Receivable Days	104.35	99.91	97.20	97.20	97.20
Change in ST Investment	-	-	-	-	-	Inventory Days	71.77	64.78	90.34	82.36	82.32
Change in LT Investment	-	-	-	-	-	Payable Days	90.21	75.04	52.34	88.80	88.93
Capex	(54.51)	0.00	(20.06)	(112.50)	(112.50)	Debt to Equity (x)	1.34	0.88	0.42	0.72	0.77
Change in Others	53.76	(6.43)	3.02	(1.92)	(2.44)	Debt to EBITDA (x)	3.56	2.73	2.13	3.20	2.94
<b>CCF Total</b>	<b>126.72</b>	<b>29.33</b>	<b>219.51</b>	<b>330.58</b>	<b>107.58</b>	Gross Profit Margin (%)	9.08	9.38	9.09	9.31	10.01
Net Change in Debt	110.92	23.21	(95.61)	357.51	140.52	Operating Profit Margin (%)	8.15	8.09	7.72	8.06	8.76
Equity financing	15	-	315	-	-	EBITDA Margin (%)	8.51	8.38	7.97	8.43	9.19
Dividend payment	-	-	-	(27.63)	(33.83)	Net Profit Margin (%)	4.05	7.81	4.44	4.56	4.67
Others	0.79	6.13	0.34	0.69	0.88	ROA (%)	7.64	16.02	7.78	7.06	7.51
Net Cash Increase	3.45	4.02	65.80	209.51	(79.04)	ROE (%)	17.88	30.14	11.07	12.13	13.28
<b>Closing Balance</b>	<b>17.05</b>	<b>21.07</b>	<b>86.87</b>	<b>296.39</b>	<b>217.35</b>						

Source: Company, MNCS



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### MNC Research Investment Ratings Guidance

**BUY** : Share price may exceed 10% over the next 12 months

**HOLD** : Share price may fall within the range of +/- 10% of the next 12 months

**SELL** : Share price may fall by more than 10% over the next 12 months

**Not Rated** : Stock is not within regular research coverage

### PT MNC SEKURITAS

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