

Wednesday, 30 August 2023

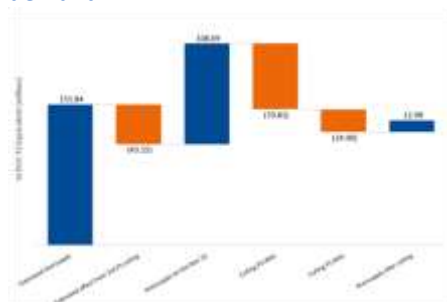
OVERWEIGHT

<Maintain>

YTD share price performance



Impact of culling program to supply-demand



Source : Bloomberg

Poultry

Regulation remains supportive

Via a regulation issued on 24 Aug-23, the government seeks to continue stabilizing livebird prices by cutting PS aged 50-54 weeks and HE aged 19 days. We estimate the supply reduction per month at around 69.4 million DOC FS during the Oct-Nov period, slightly lower than the 72.5 million during Aug-Sep. As such, we believe DOC and livebird prices will remain stable in 4Q23. We remain Overweight on the sector with CPIN as our top pick.

Fourth culling program in 2023. The fourth culling program was issued on 24 August to manage the oversupply of DOC FS in the September to November period. The instruction includes the culling of 2.5 million Parent Stock (PS) aged 50-54 weeks scheduled for August 24 to October 7, 2023. This measure aims to reduce the supply of DOC by 70.9 million. In addition to the PS culling, breeders are also to cut HE aged 19 days by 13.6 million from 30 September to 21 October (4.5 million per week) and by 14.9 million from 4 to 18 November 2023 (7.4 million per week) aiming to reduce DOC FS supply by 11.9 million and 13.0 million respectively. The fourth culling program is quite similar to the third one, which emphasizes PS to reduce oversupply. However, there is an increase from 1.9 million PS to 2.5 million PS.

Positive for 4Q23 earnings. We anticipate that the strict implementation of the culling measures will result in a sufficient reduction in supply. We estimate the total reduction of DOC FS at 69.4 million during the Oct-Nov period, slightly lower than 72.5 million during Aug-Sep. We believe this is enough to address the oversupply. As such, we expect Livebird (LB) prices to remain above the cost of production in 4Q23, translating into positive earnings in the last quarter of 2023.

Better 2H23 earnings outlook than previously anticipated. Culling close to the elections was not within our previous expectation. As such, we tweak up our DOC and livebird price assumptions for 2023 as the government remains supportive in managing supply-demand through the fourth culling program. However, we also tweak our corn cost assumption due to the recent increase in market prices.

Overweight the sector. We maintain our Overweight stance on the sector as we believe the sector is under-owned given its potential earnings growth post the elections in 2024 from moderation in raw material costs, a lower cost of culling, and stable chicken prices. Our top pick is CPIN given the high contribution of its commercial farming business and underperformance YTD. Risks to our view include persistent oversupply coupled with a lack of culling in 2024 and a severe El Nino which could result in higher raw material costs.



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Company	Ticker	Rec	Target Price	Market Cap.	P/E (x)		P/BV (x)		ROE (%)
			(Rp)	(RpBn)	2023F	2024F	2023F	2024F	2024F
Charoen Pokphand Indonesia	CPIN IJ	BUY	6,700	87,319.4	28.1	25.2	3.1	2.9	12.0
Japfa Comfeed Indonesia	JPFA IJ	BUY	1,500	15,420.4	14.8	9.6	1.2	1.1	11.5
Malindo Feedmill Indonesia	MAIN IJ	BUY	550	1,052.2	n/m	8.2	0.5	0.4	5.4

Exhibit 1. Monthly livebird price (IDR/kg)



Source: Pinsar, BRI Danareksa Sekuritas

Exhibit 2. Monthly DOC price (IDR/chick)



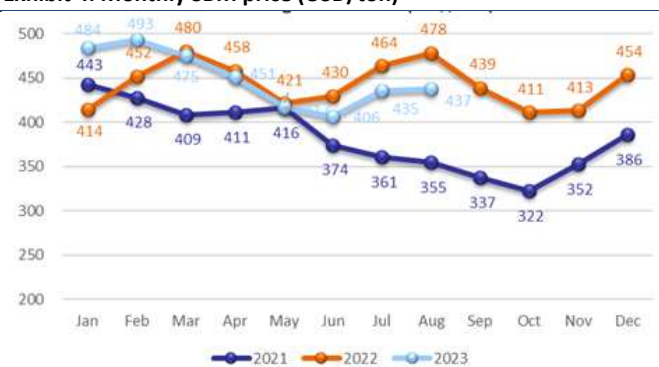
Source: Various sources, BRI Danareksa Sekuritas

Exhibit 3. Monthly corn price (IDR/kg)



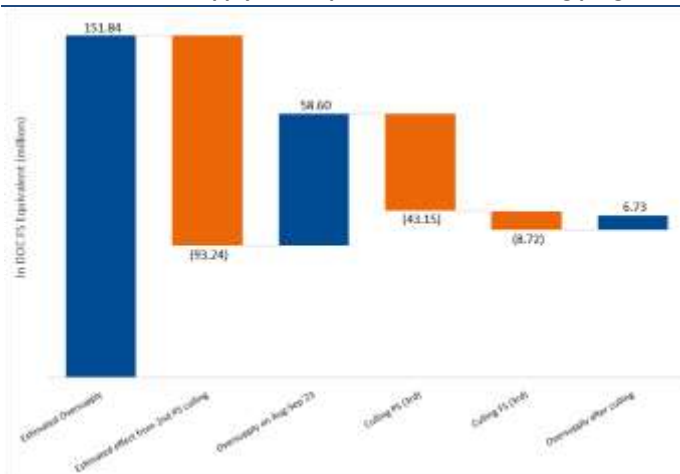
Source: Company, BRI Danareksa Sekuritas

Exhibit 4. Monthly SBM price (USD/ton)



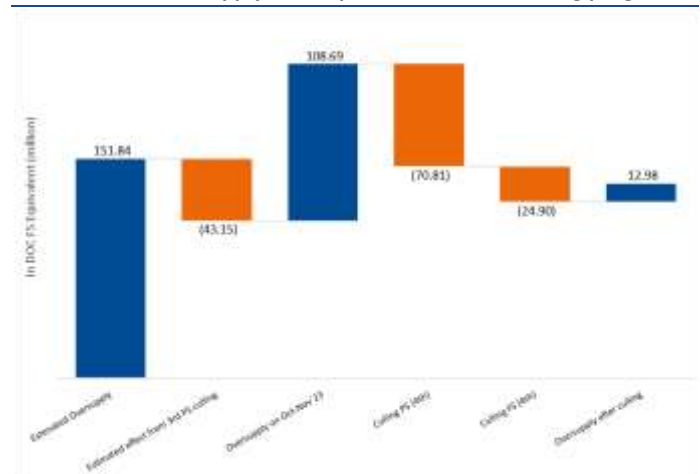
Source: Bloomberg, BRI Danareksa Sekuritas

Exhibit 5. Est. oversupply and impact from the 3rd culling program



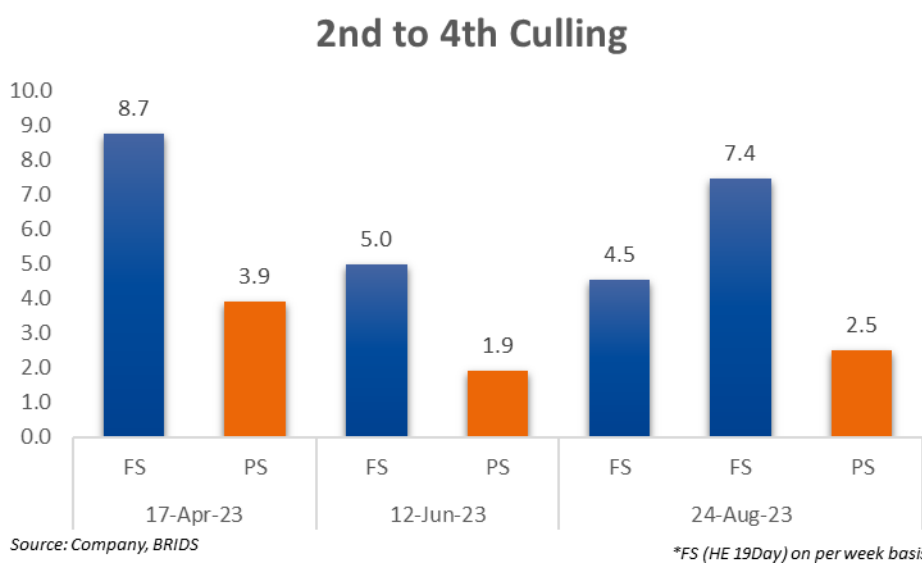
Source: Company, BRI Danareksa Sekuritas

Exhibit 6. Est. oversupply and impact from the 4th culling program



Source: Bloomberg, BRI Danareksa Sekuritas

Exhibit 7. Number of PS and FS to be culled



Wednesday, 30 August 2023

BUY Upgrade

Last price (IDR)	5,325
Target Price (IDR)	6,700
Upside/Downside	+25.8%
Previous Target Price (IDR)	6,700

Stock Statistics

Sector	Poultry
Bloomberg Ticker	CPIN JJ
No of Shrs (mn)	16,398
Mkt. Cap (IDRbn/USDmn)	87,319/5,722
Avg. daily T/O (IDRbn/USDmn)	46.8/3.1

Major shareholders (%)

PT Charoen Pokphand Indonesia Group	55.5
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Estimated free float	44.5
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EPS Consensus (IDR)

	2023F	2024F	2025F
Danareksa	189.4	211.2	221.6
Consensus	193.5	260.7	333.3
Danareksa/Cons	(2.2)	(19.0)	(33.5)

CPIN relative to JCI Index



Source : Bloomberg



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Charoen Pokphand Indonesia (CPIN JJ)

Chicken prices to stabilize in 4Q23

The implementation of the fourth culling program is expected to stabilize DOC and livebird prices in 4Q23. We maintain our BUY call with an unchanged TP of IDR 6,700 as we maintain our 18.2x EV/EBITDA (5-year average) valuation to FY24F EBITDA of IDR6.4tn. Our TP implies 35x/32x FY23F/FY24F PE.

The fourth culling program in 2023 to stabilize chicken prices. The government of Indonesia announced a fourth culling program on August 24, 2023, to address the oversupply of day-old chick finishers (DOC FS) in the September to November period. The program calls for the culling of 2.5 million parent stock (PS) aged 50-54 weeks between August 24 and October 7, 2023. This is expected to reduce the supply of DOC by 70.9 million. In addition, breeders will also be required to cull 13.6 million hatching eggs (HE) aged 19 days between September 30 and October 21, 2023 (4.5 million per week), and 14.9 million HE between November 4 and 18, 2023 (7.4 million per week). This is expected to reduce the supply of DOC FS by an additional 11.9 million and 13.0 million, respectively. We believe that the strict implementation of these culling measures will result in a significant reduction in supply. As a result, we expect livebird (LB) prices to remain above the cost of production in the fourth quarter of 2023, leading to positive earnings for the poultry industry.

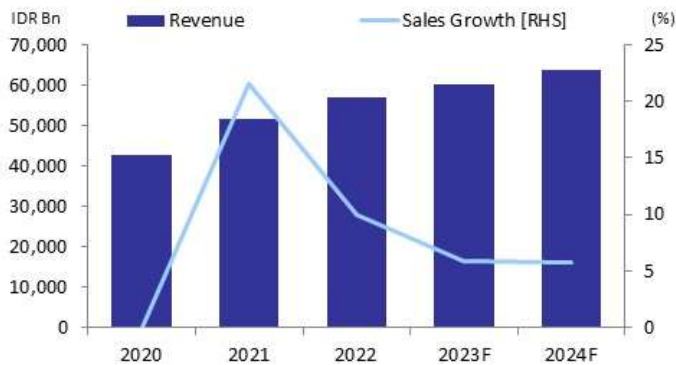
Better 2H23 earnings outlook than previously anticipated. We anticipate that the strict implementation of the culling measures will result in a sufficient reduction in supply. We estimate the total reduction of DOC FS at 69.4 million during the Oct-Nov period, slightly lower than 72.5 million during Aug-Sep. We believe this is enough to address the oversupply. As such, we expect Livebird (LB) prices to remain above the cost of production in 4Q23, translating into positive earnings in the last quarter of 2023.

Maintain BUY with an unchanged TP of IDR6,700. We maintain our EV/EBITDA based multiple valuation at 18.2x (5-year average) to the average FY24F EBITDA. Our TP remains unchanged at IDR6,700 as our new FY24F EBITDA is relatively unchanged. Our TP implies 35x/32x FY23/24F PE. Risks to our view include lower-than-expected chicken prices due to limited supply adjustments and a severe impact from El Nino which could result in higher raw material costs.

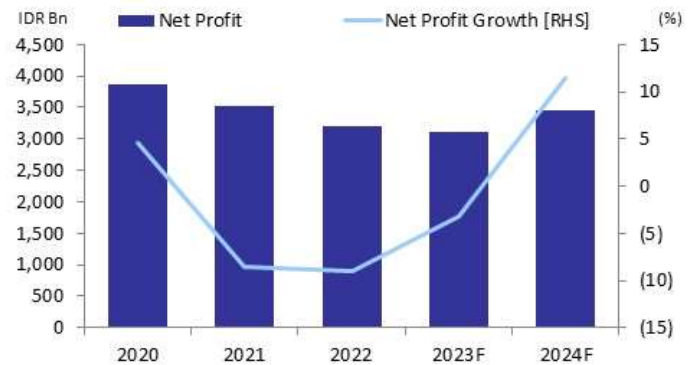
Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDRbn)	51,698	56,868	60,202	63,703	70,226
EBITDA (IDRbn)	5,592	5,326	5,784	6,383	6,721
EBITDA Growth (%)	(10.3)	(4.7)	8.6	10.4	5.3
Net profit (IDRbn)	3,530	3,210	3,105	3,463	3,634
EPS (IDR)	215.3	195.8	189.4	211.2	221.6
EPS growth (%)	(8.6)	(9.1)	(3.3)	11.5	5.0
BVPS (IDR)	1,532.8	1,604.5	1,706.5	1,825.1	1,943.4
DPS (IDR)	112.0	108.0	87.3	92.6	103.3
PER (x)	24.7	27.2	28.1	25.2	24.0
PBV (x)	3.5	3.3	3.1	2.9	2.7
Dividend yield (%)	2.1	2.0	1.6	1.7	1.9
EV/EBITDA (x)	16.4	17.7	16.6	15.1	14.4

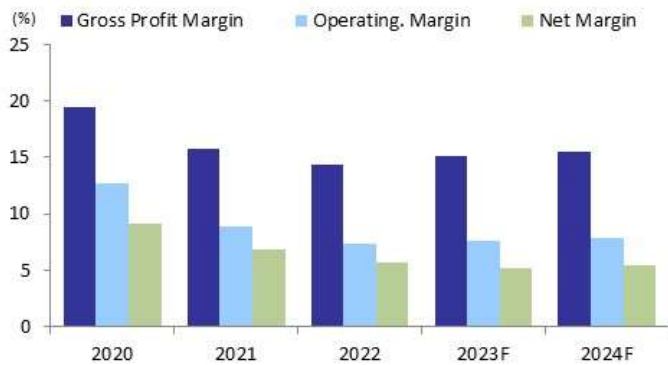
Source : CPIN, Danareksa Estimates

Exhibit 1. Revenues and Growth


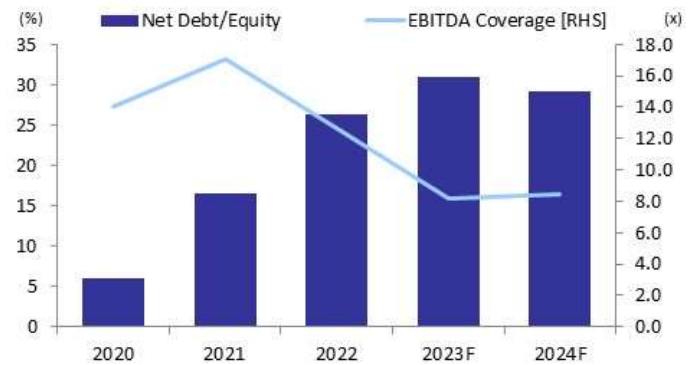
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 5. Changes in assumptions and forecasts

Financial	2023F			2024F		
	Prev	New	Changes	Prev	New	Changes
Revenue (IDRbn)	60,118	60,202	0.1%	65,435	63,703	-2.6%
EBITDA (IDRbn)	4,156	5,784	39.2%	6,394	6,383	-0.2%
Net Profit (IDRbn)	2,090	3,105	48.5%	3,842	3,463	-9.9%
Assumption						
Live Bird (IDR/kg live)	17,835	20,147	13.0%	18,584	20,147	8.4%
DOC (IDR/bird)	5,545	6,784	22.4%	5,787	6,784	17.2%
Corn (IDR/kg)	4,919	5,333	8.4%	4,747	5,006	5.5%
Soybean meal (USD/MT)	466	455	-2.5%	455	433	-4.9%

Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Revenue	51,698	56,868	60,202	63,703	70,226
COGS	(43,559)	(48,724)	(51,113)	(53,809)	(59,608)
Gross profit	8,139	8,144	9,088	9,894	10,618
EBITDA	5,592	5,326	5,784	6,383	6,721
Oper. profit	4,610	4,186	4,558	5,047	5,268
Interest income	40	22	24	18	12
Interest expense	(329)	(420)	(709)	(757)	(757)
Forex Gain/(Loss)	(12)	(48)	(2)	(8)	(8)
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	233	80	84	87	90
Pre-tax profit	4,543	3,819	3,955	4,386	4,604
Income tax	(1,015)	(607)	(848)	(921)	(967)
Minority interest	2	(2)	(2)	(2)	(3)
Net profit	3,530	3,210	3,105	3,463	3,634
Core Net Profit	3,542	3,259	3,107	3,471	3,643

Exhibit 7. Balance Sheet

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	1,803	2,042	1,877	1,796	1,179
Receivables	1,794	2,094	2,058	2,178	2,401
Inventory	7,655	9,000	11,357	11,956	13,244
Other Curr. Asset	4,462	4,896	5,001	5,164	5,369
Fixed assets - Net	16,256	17,628	19,041	20,366	21,593
Other non-curr.asset	3,475	4,188	4,282	4,378	4,476
Total asset	35,446	39,848	43,616	45,837	48,262
ST Debt	4,587	6,649	8,149	8,149	8,149
Payables	2,402	2,446	2,543	2,677	2,965
Other Curr. Liabilities	848	1,014	1,087	1,167	1,244
Long Term Debt	1,358	2,312	2,399	2,407	2,415
Other LT. Liabilities	1,102	1,099	1,436	1,489	1,597
Total Liabilities	10,296	13,520	15,614	15,889	16,370
Shareholder's Funds	25,135	26,311	27,983	29,927	31,868
Minority interests	15	17	19	21	24
Total Equity & Liabilities	35,446	39,848	43,616	45,838	48,263

Exhibit 8. Cash Flow

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Net income	3,530	3,210	3,105	3,463	3,634
Depreciation and Amort.	981	1,140	1,226	1,336	1,453
Change in Working Capital	(2,382)	(1,891)	(2,173)	(668)	(1,351)
Other Oper. Cash Flow	(8)	(786)	(32)	(33)	(34)
Operating Cash Flow	2,122	1,674	2,125	4,097	3,703
Capex	(2,781)	(2,594)	(2,639)	(2,661)	(2,680)
Others Inv. Cash Flow	(38)	(19)	(56)	(58)	(59)
Investing Cash Flow	(2,819)	(2,613)	(2,695)	(2,718)	(2,739)
Net change in debt	1,828	3,061	1,504	8	8
New Capital	0	0	0	0	0
Dividend payment	(1,837)	(1,771)	(1,432)	(1,519)	(1,694)
Other Fin. Cash Flow	(307)	(362)	334	50	105
Financing Cash Flow	(316)	928	406	(1,460)	(1,581)
Net Change in Cash	(1,013)	(11)	(164)	(82)	(617)
Cash - begin of the year	2,678	1,803	2,042	1,877	1,796
Cash - end of the year	1,803	2,042	1,877	1,796	1,179

Exhibit 9. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Growth (%)					
Sales	21.6	10.0	5.9	5.8	10.2
EBITDA	(10.3)	(4.7)	8.6	10.4	5.3
Operating profit	(14.2)	(9.2)	8.9	10.7	4.4
Net profit	(8.6)	(9.1)	(3.3)	11.5	5.0
Profitability (%)					
Gross margin	15.7	14.3	15.1	15.5	15.1
EBITDA margin	10.8	9.4	9.6	10.0	9.6
Operating margin	8.9	7.4	7.6	7.9	7.5
Net margin	6.8	5.6	5.2	5.4	5.2
ROAA	10.6	8.5	7.4	7.7	7.7
ROAE	14.6	12.5	11.4	12.0	11.8
Leverage					
Net Gearing (x)	0.2	0.3	0.3	0.3	0.3
Interest Coverage (x)	14.0	10.0	6.4	6.7	7.0

Source : CPIN, Danareksa Estimates

Wednesday, 30 August 2023

BUY
Maintain

Last price (IDR)	1,315
Target Price (IDR)	1,500
Upside/Downside	+14.1%
Previous Target Price (IDR)	1,500

Stock Statistics

Sector	Poultry
Bloomberg Ticker	JPFA JJ
No of Shrs (mn)	11,411
Mkt. Cap (IDRbn/USDmn)	15,005/983
Avg. daily T/O (IDRbn/USDmn)	19.6/1.3

Major shareholders (%)

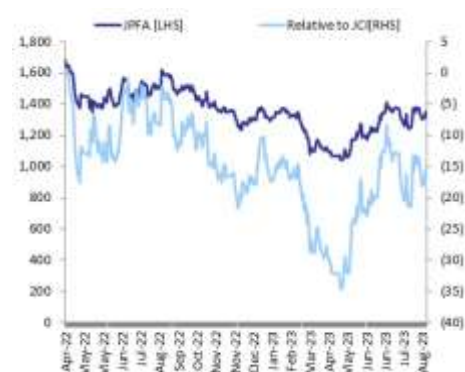
Japfa Ltd.	55.4
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Estimated free float	43.1
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EPS Consensus (IDR)

	2023F	2024F	2025F
Danareksa	88.9	136.4	163.1
Consensus	109.2	149.2	172.6
Danareksa/Cons	(18.6)	(8.6)	(5.5)

JPFA relative to JCI Index



Source : Bloomberg



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Japfa Comfeed Indonesia(JPFA JJ)

Supported by supply adjustment

The implementation of the fourth culling program is expected to stabilize DOC and livebird prices in 4Q23. We maintain our BUY call on JPFA with an unchanged TP of IDR1,500 as we maintain our 7.3x EV/EBITDA (5-year average) valuation to FY24F EBITDA of IDR4.3tn. Our TP implies 17x/11x FY23F/FY24F PE.

The fourth culling program in 2023 to stabilize chicken prices. The fourth culling program was issued on 24 August to manage the oversupply of DOC FS in the September to November period. The instruction includes the culling of 2.5 million Parent Stock (PS) aged 50-54 weeks scheduled for August 24 to October 7, 2023. This measure aims to reduce the supply of DOC by 70.9 million. In addition to the PS culling, breeders are also to cut HE aged 19 days by 13.6 million from 30 September to 21 October (4.5 million per week) and by 14.9 million from 4 to 18 November 2023 (7.4 million per week) aiming to reduce DOC FS supply by 11.9 million and 13.0 million respectively. We anticipate that the strict implementation of the culling measures will result in a sufficient reduction in supply. As such, we expect Livebird (LB) prices to remain above the cost of production in 4Q23, translating into positive earnings in the last quarter of 2023.

Better 2H23 earnings outlook than previously anticipated. Culling close to the elections was not within our previous expectation. As such, we tweak up our livebird and DOC price assumptions (from IDR17.7k/6.9k to IDR19.7k/7.3k) for 2023 as the government remains supportive in managing supply-demand through the fourth culling program. However, we also tweak our corn cost assumption (from IDR4.9k to IDR5.3k) due to the recent increase in market prices.

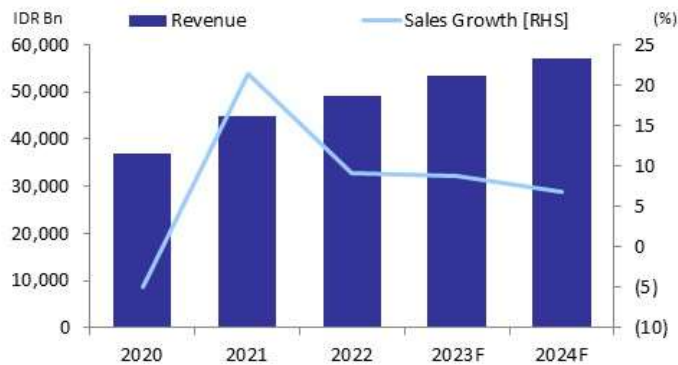
Maintain BUY with an unchanged TP of IDR1,500. We maintain our EV/EBITDA based multiple valuation at 7.3x (5-year average) to the average FY24F EBITDA. Our TP remains unchanged at IDR 1,500 as our new FY24F EBITDA is relatively unchanged. Our TP implies 17x/11x FY23/24F PE. Risks to our view include lower-than-expected chicken prices due to limited supply adjustments and a severe impact from El Nino which could result in higher raw material costs.

Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDRbn)	44,878	48,972	53,302	56,895	63,361
EBITDA (IDRbn)	4,437	3,753	3,401	4,334	4,629
EBITDA Growth (%)	17.1	(15.4)	(9.4)	27.4	6.8
Net profit (IDRbn)	1,989	1,432	1,042	1,599	1,746
EPS (IDR)	169.6	122.1	88.9	136.4	148.9
EPS growth (%)	71.5	(28.0)	(27.2)	53.5	9.2
BVPS (IDR)	1,043.2	1,087.1	1,135.8	1,242.1	1,342.2
DPS (IDR)	39.8	59.5	41.7	30.0	47.0
PER (x)	7.8	10.8	14.8	9.6	8.8
PBV (x)	1.3	1.2	1.2	1.1	1.0
Dividend yield (%)	3.0	4.5	3.2	2.3	3.6
EV/EBITDA (x)	5.5	7.1	8.4	6.6	6.4

Source : JPFA, Danareksa Estimates

Exhibit 1. Revenues and Growth



Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth



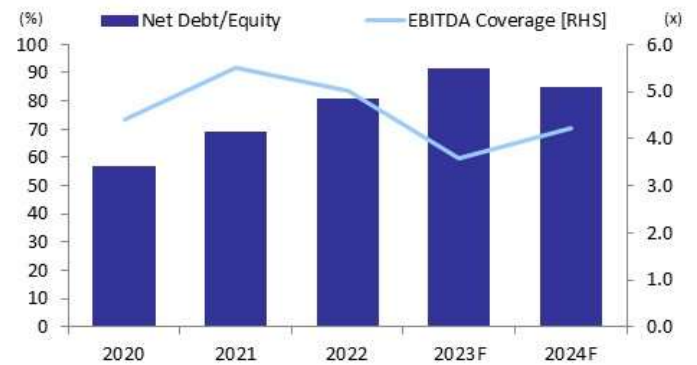
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 3. Margins



Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 5. Changes in assumptions and forecasts

Financial	2023F			2024F		
	Prev	New	Changes	Prev	New	Changes
Revenue (IDRbn)	51,160	53,302	4.2%	55,776	56,895	2.0%
EBITDA (IDRbn)	2,980	3,401	14.1%	4,197	4,334	3.2%
Net Profit (IDRbn)	829	1,021	23.1%	1,603	1,599	-0.2%
Assumption						
Live Bird (IDR/kg live)	17,686	19,677	11.3%	18,274	19,677	7.7%
DOC (IDR/bird)	6,869	7,304	6.3%	6,956	7,304	5.0%
Corn (IDR/kg)	4,919	5,333	8.4%	4,747	5,006	5.5%
Soybean meal (IDR/MT)	466	455	-2.5%	455	433	-4.9%

Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Revenue	44,878	48,972	53,302	56,895	63,361
COGS	(36,858)	(41,289)	(45,861)	(47,982)	(53,681)
Gross profit	8,020	7,683	7,442	8,914	9,681
EBITDA	4,437	3,753	3,401	4,334	4,629
Oper. profit	3,222	2,803	2,375	3,224	3,433
Interest income	14	9	31	35	31
Interest expense	(807)	(747)	(950)	(1,028)	(1,037)
Forex Gain/(Loss)	53	(72)	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	278	(28)	(29)	(30)	(31)
Pre-tax profit	2,761	1,966	1,427	2,202	2,395
Income tax	(663)	(464)	(333)	(522)	(563)
Minority interest	(108)	(71)	(51)	(80)	(86)
Net profit	1,989	1,432	1,042	1,599	1,746
Core Net Profit	1,936	1,503	1,042	1,599	1,746

Exhibit 7. Balance Sheet

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	1,085	1,811	2,371	2,402	1,850
Receivables	2,429	2,496	2,695	2,877	3,204
Inventory	9,068	10,976	12,245	12,812	14,333
Other Curr. Asset	1,579	1,718	1,782	1,911	2,073
Fixed assets - Net	11,510	12,497	13,347	14,224	14,899
Other non-curr.asset	2,919	3,192	3,498	3,612	3,707
Total asset	28,590	32,691	35,938	37,837	40,066
ST Debt	3,000	4,424	6,930	6,936	6,941
Payables	3,030	4,135	3,979	4,163	4,658
Other Curr. Liabilities	1,035	853	859	961	1,035
Long Term Debt	7,132	8,426	8,523	8,740	8,966
Other LT. Liabilities	1,275	1,195	1,370	1,433	1,601
Total Liabilities	15,471	19,034	21,662	22,233	23,202
Shareholder's Funds	12,233	12,748	13,319	14,566	15,740
Minority interests	869	907	958	1,038	1,124
Total Equity & Liabilities	28,574	32,689	35,938	37,837	40,066

Exhibit 8. Cash Flow

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Net income	1,989	1,432	1,042	1,599	1,746
Depreciation and Amort.	1,215	950	1,026	1,109	1,196
Change in Working Capital	(2,854)	(1,135)	(1,968)	(685)	(1,516)
Other Oper. Cash Flow	350	(138)	154	211	204
Operating Cash Flow	701	1,109	255	2,235	1,630
Capex	(1,617)	(1,937)	(2,002)	(2,128)	(2,021)
Others Inv. Cash Flow	(894)	(42)	21	27	23
Investing Cash Flow	(2,511)	(1,979)	(1,981)	(2,101)	(1,998)
Net change in debt	2,280	2,719	2,602	223	232
New Capital	18	(310)	0	0	0
Dividend payment	(466)	(697)	(489)	(352)	(551)
Other Fin. Cash Flow	(265)	(75)	174	61	167
Financing Cash Flow	1,567	1,637	2,286	(68)	(153)
Net Change in Cash	(243)	766	560	66	(521)
Cash - begin of the year	1,336	1,085	1,811	2,371	2,402
Cash - end of the year	1,085	1,811	2,371	2,402	1,850

Exhibit 9. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Growth (%)					
Sales	21.4	9.1	8.8	6.7	11.4
EBITDA	17.1	(15.4)	(9.4)	27.4	6.8
Operating profit	22.3	(13.0)	(15.3)	35.8	6.5
Net profit	71.5	(28.0)	(27.2)	53.5	9.2
Profitability (%)					
Gross margin	17.9	15.7	14.0	15.7	15.3
EBITDA margin	9.9	7.7	6.4	7.6	7.3
Operating margin	7.2	5.7	4.5	5.7	5.4
Net margin	4.4	2.9	2.0	2.8	2.8
ROAA	7.3	4.7	3.0	4.3	4.5
ROAE	17.4	11.5	8.0	11.5	11.5
Leverage					
Net Gearing (x)	0.7	0.8	0.9	0.9	0.8
Interest Coverage (x)	4.0	3.8	2.5	3.1	3.3

Source : JPFA, Danareksa Estimates

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