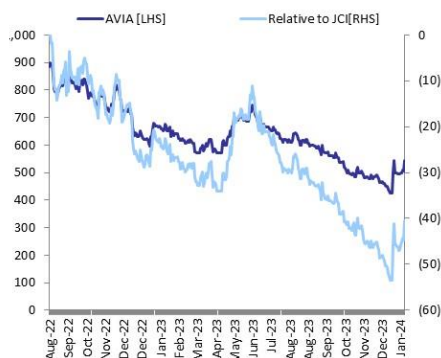


Buy

(Maintained)

| | | | |
|-----------------------------|--------------|-------|-------|
| Last Price (Rp) | 545 | | |
| Target Price (Rp) | 620 | | |
| Previous Target Price (Rp) | 700 | | |
| Upside/Downside | +13.8% | | |
| No. of Shares (mn) | 61,954 | | |
| Mkt Cap (Rpbn/US\$m) | 33,765/2,171 | | |
| Avg, Daily T/O (Rpbn/US\$m) | 11.6/0.7 | | |
| Free Float (%) | 25.2 | | |
| Major Shareholder (%) | | | |
| Tancorp Surya Sentosa | 36.6 | | |
| Wahana Lancar Rejeki | 32.5 | | |
| EPS Consensus (Rp) | | | |
| | 2023F | 2024F | 2025F |
| BRIDS | 24.7 | 25.6 | 27.3 |
| Consensus | 24.9 | 27.4 | 29.6 |
| BRIDS/Cons (%) | (1.0) | (6.4) | (7.8) |

AVIA relative to JCI Index



Source: Bloomberg

BRI Danareksa Sekuritas Analysts

Natalia Sutanto

(62-21) 5091 4100 ext. 3508
natalia.sutanto@brids.co.id

Sabela Nur Amalina

(62-21) 5091 4100 ext. 4202
sabela.amalina@brids.co.id

Avia Avian Tbk (AVIA IJ)

A better volume growth prospect in FY24

- We expect FY24 vol. growth to improve (to +3.6% yoy) which, combined with sustained margins, shall drive FY24 net profit growth of 4% yoy.
- Nonetheless, we cut our FY24-25F net profit forecast as we now look for a more conservative volume growth.
- Led by strategic initiatives in FY24, we expect stronger volumes should drive earnings upside for AVIA. Maintain Buy with a lower TP of Rp620.

Better 4Q23 volume, FY23 net profit growth of +9% yoy.

AVIA management indicated that the sales volume in Oct and Nov23 already showed improvements, supported by value products, waterproofing and wall paint products. For FY23, we estimate flat volume growth (vs our previous assumption of 4.6% growth due to soft 9M23 volume) and 4.6% ASP growth to support FY23 revenues of Rp7tr, +4.8% yoy. We estimate continued soft raw material prices (crude oil price -10% in the past 12M) and higher ASP to offset higher BTL expenses (8.9% to revenue vs 8.1% in FY22) and support FY23 gross margin to rise to 43.6% (FY22: 40.6%). We expect these to lead to FY23 net profit growth of +9% yoy.

Strategic initiatives to support sales volumes in FY24 onwards.

With soft national minimum wage increases of an average 4%, we see a more challenging environment for the paint industry demand in FY24. For FY24, we believe the company will continue to push sales volume with its extensive range of value products, express delivery using 3-wheel vehicles and stronger relationships with wholesalers through loyalty programs.

Cut FY24-25F estimates by 6.4-10.6% on lower volume growth assumptions.

We estimate 3.6% volume growth in FY24 with 2% ASP adjustments, culminating in FY24 revenue of Rp7.4tr (+5.7% yoy). Amid our expectation of sustained gross margins, but continued high BTL and high promotional expenses, we expect AVIA to book FY24 net profit of Rp1.6tr, +4% yoy. Given lower assumptions for volume growth, ASP and the growth in Trading Goods revenue, we revise down our FY24 and FY25 net profit estimate by 6.4% and 10.6% respectively (Exhibit 5).

Maintain Buy rating as stronger volume ahead should offer catalysts.

We believe current share price has priced in the weak financial performance in 9M23, following 15.5% decline in the past 6M. We maintain Buy rating as we see stronger volume growth potentials amid the strategic initiatives. AVIA trades at FY24F PE of 21.3x, still below its -1SD avg 2y PE of 23.9x and below the average global peers PE of 28.9x. Taking into account our latest forecast, we lower our TP to Rp620 (from Rp700 prev.), implying FY24F PE of 24.4x.

Key Financials

| Year to 31 Dec | 2021A | 2022A | 2023F | 2024F | 2025F |
|--------------------|-------|--------|-------|-------|-------|
| Revenue (Rpbn) | 6,780 | 6,694 | 7,015 | 7,417 | 7,916 |
| EBITDA (Rpbn) | 1,928 | 1,659 | 1,894 | 2,021 | 2,160 |
| EBITDA Growth (%) | 23.1 | (13.9) | 14.2 | 6.7 | 6.9 |
| Net Profit (Rpbn) | 1,434 | 1,400 | 1,528 | 1,588 | 1,692 |
| EPS (Rp) | 23.2 | 22.6 | 24.7 | 25.6 | 27.3 |
| EPS Growth (%) | 26.3 | (2.4) | 9.1 | 4.0 | 6.5 |
| BVPS (Rp) | 151.9 | 154.5 | 167.8 | 183.6 | 198.1 |
| DPS (Rp) | 37.9 | 18.0 | 11.3 | 9.9 | 12.8 |
| PER (x) | 23.5 | 24.1 | 22.1 | 21.3 | 20.0 |
| PBV (x) | 3.6 | 3.5 | 3.2 | 3.0 | 2.8 |
| Dividend yield (%) | 7.0 | 3.3 | 2.1 | 1.8 | 2.4 |
| EV/EBITDA (x) | 14.3 | 16.7 | 14.3 | 13.0 | 11.8 |

Source: AVIA, BRIDS Estimates

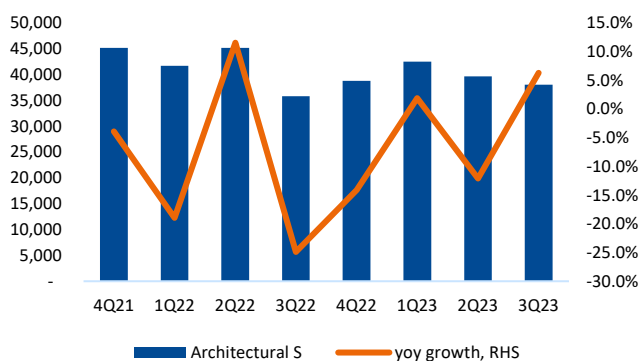
A better volume growth prospect in FY24

Better 4Q23 volume, FY23 net profit growth of +9% yoy.

AVIA management indicated that the sales volume in Oct23 and Nov23 already showed improvements from weak 9M23, supported by value products (less than a 10% contribution to total sales), waterproofing and wall paint products. Hence, for 11M23, we expect flat sales volume (vs 9M23: -2%). The company stated that new value products (launched in 2Q23 and 3Q23) have already gained repeat orders and supported the 4Q23 volume.

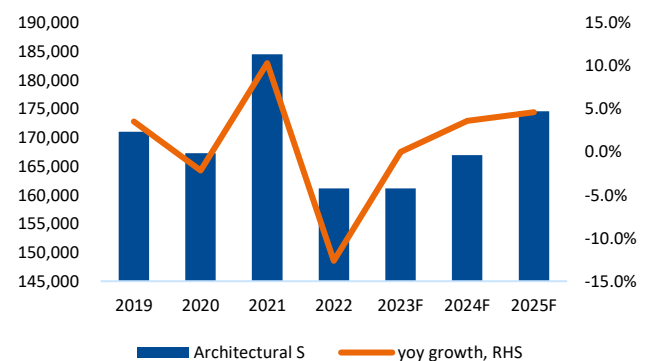
For FY23, we estimate flat volume growth (vs our previous assumption of 4.6% growth due to soft 9M23 volume) and 4.6% ASP growth to support FY23 revenues of Rp7tr, +4.8% yoy. Continued soft raw material prices (crude oil price -10% in the past 12M) and higher ASP offset higher BTL expenses (8.9% to revenue vs 8.1% in FY22), supported a higher FY23 gross margin of 43.6% (FY22: 40.6%). Below the operating level, AVIA reported higher employee costs (due to a new DC opening) and promotional costs (to support new products). This led to FY23 net profit of Rp1.5tr, +9% yoy.

Exhibit 1. Quarterly volume and growth (AS)



Source: Company

Exhibit 2. Volume and growth, 2019-25F



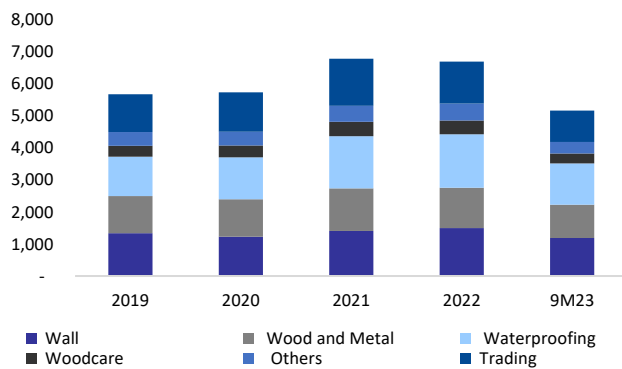
Source: Company, BRIDS estimates

FY24: We forecast net profit growth of +4% yoy.

With soft national minimum wage increases of an average 4%, we see a more challenging environment for the paint industry in 2024. In the short term, the rainy season will support sales of waterproofing products (25% of total revenue) in 4Q23 and 1Q24.

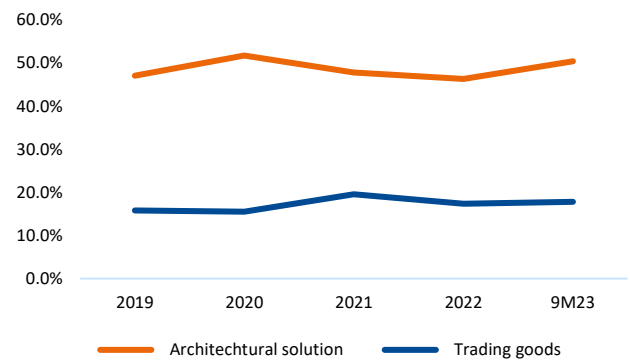
For 2024, we believe the company will continue to push sales volume with its extensive range of value products, express delivery using 3-wheel vehicles and stronger relationships with wholesalers through loyalty programs. We estimate 3.6% volume growth in FY24 with 2% ASP adjustments, culminating in FY24 revenue of Rp7.4tr, +5.7% yoy. With maintained gross margins, continued high BTL and high promotional expenses, we expect AVIA to book FY24 net profit of Rp1.6tr, +4% yoy. Given lower assumptions for volume growth, ASP and the growth in Trading Goods revenue, we revise down our FY24 net profit estimate by 6.4%.

Exhibit 3. Revenue breakdown, 2019-9M23



Source: Company

Exhibit 4. Gross margin, AS and trading goods, 2019-9M23



Source: Company

Exhibit 5. Earnings revision and change in assumptions

| Rpbm | Previous | | | New | | | Changes | | |
|---------------------------------|----------|-------|-------|-------|-------|-------|---------|-------|--------|
| | 2023F | 2024F | 2025F | 2023F | 2024F | 2025F | 2023 | 2024 | 2025 |
| Revenue | 7,025 | 7,744 | 8,545 | 7,015 | 7,417 | 7,916 | -0.1% | -4.2% | -7.4% |
| Gross profit | 2,959 | 3,302 | 3,634 | 3,057 | 3,224 | 3,441 | 3.3% | -2.4% | -5.3% |
| Operating profit | 1,665 | 1,883 | 2,078 | 1,665 | 1,749 | 1,868 | 0.0% | -7.1% | -10.1% |
| Net profit | 1,531 | 1,696 | 1,891 | 1,528 | 1,588 | 1,692 | -0.2% | -6.4% | -10.6% |
| Gross margin | 42.1% | 42.6% | 42.5% | 43.6% | 43.5% | 43.5% | | | |
| Operating margin | 23.7% | 24.3% | 24.3% | 23.7% | 23.6% | 23.6% | | | |
| Net margin | 21.8% | 21.9% | 22.1% | 21.8% | 21.4% | 21.4% | | | |
| Key assumptions | | | | | | | | | |
| Volume - Architectural solution | 4.6% | 6.2% | 6.7% | 0.0% | 3.6% | 4.6% | | | |
| ASP | 0.0% | 4.1% | 3.8% | 4.6% | 2.1% | 2.1% | | | |
| Trading goods - revenue growth | 6.2% | 8.9% | 8.9% | 5.7% | 5.7% | 6.5% | | | |

Source: BRIDS estimates

Maintain BUY

We believe current share price has priced in the weak financial performance in 9M23, following 15.5% decline in the past 6M. We maintain Buy rating as we see stronger volume growth potentials amid the strategic initiatives. AVIA trades at FY24F PE of 21.3x, still below its -1SD avg 2y PE of 23.9x and below the average global peers PE of 28.9x. Taking into account our latest forecast, we lower our TP to Rp620 (from Rp700 prev.), implying FY24F PE of 24.4x.

Exhibit 6. Peers' comparison

| Company | Country | Market cap (USD Mn) | PE | | | ROE | | | Ebit Margin | | |
|------------------------------|---------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| | | | 2022 | 2023F | 2024F | 2022 | 2023F | 2024F | 2022 | 2023F | 2024F |
| Avia Avian Indonesia | Indonesia | 2,168 | 27.86 | 21.88 | 21.88 | 14.76 | 16.87 | 16.87 | 22.6% | 25.2% | 26.6% |
| Sherwin-Williams | United states | 76,129 | 30.20 | 28.83 | 28.83 | 72.94 | 74.77 | 74.77 | 12.8% | 15.6% | 12.8% |
| PPG Industries, Inc | United states | 34,519 | 22.92 | 19.16 | 19.16 | 15.93 | 24.13 | 24.13 | 12.8% | 12.9% | 10.3% |
| RPM International, Inc | United states | 13,706 | 23.82 | 21.45 | 21.45 | 26.19 | 27.39 | 27.39 | 8.0% | 9.3% | 11.8% |
| Axalta Coating Systems Ltd | United states | 7,258 | 16.69 | 20.78 | 20.78 | 13.01 | 21.69 | 21.69 | 10.9% | 8.2% | 10.5% |
| Akzo Nobel N.V | Netherland | 12,122 | 30.22 | 20.28 | 20.28 | 7.21 | 13.07 | 13.07 | 9.1% | 11.3% | 11.7% |
| Nippon Paint Holdings Co Ltd | Japan | 18,837 | 30.72 | 22.66 | 22.66 | 7.53 | 10.17 | 10.17 | 11.3% | 11.3% | 8.8% |
| Kansai Paint Co.,Ltd | Japan | 4,289 | 19.11 | 9.66 | 9.66 | 8.74 | 17.52 | 17.52 | 7.6% | 7.7% | 8.6% |
| Asian Paints Ltd | India | 37,961 | 97.50 | 58.63 | 58.63 | 22.77 | 30.71 | 30.71 | 16.5% | 16.8% | 18.9% |
| Berger Paints India Ltd | India | 8,387 | 81.55 | 53.34 | 53.34 | 22.80 | 25.54 | 25.54 | 12.6% | 13.9% | 15.0% |
| Kansai Nerolac Paints Ltd | India | 3,315 | 70.23 | 33.86 | 33.86 | 8.77 | 15.36 | 15.36 | 12.0% | 12.6% | 13.8% |
| | | | 42.3 | 28.9 | 28.9 | 20.6 | 26.0 | 26.0 | 11% | 12% | 12% |
| Arwana Citra Mulia | Indonesia | 342 | 12.6 | 12.0 | 12.0 | 34.4 | 23.8 | 23.8 | 13.3% | 19.0% | 23.5% |
| Surya Pertiwi | Indonesia | 98 | 7.1 | na | na | 15.3 | na | na | 12.0% | 9.1% | 12.1% |
| Surya Toto Indonesia | Indonesia | 152 | 8.9 | na | na | 14.1 | na | na | 7.8% | 1.1% | 10.1% |
| Catur Sentosa Adiprana | Indonesia | 228 | 15.2 | na | na | 10.8 | na | na | 2.3% | 2.7% | 3.8% |
| Caturkarda Depo Bangunan | Indonesia | 158 | 31.5 | na | na | 9.0 | na | na | 4.0% | 5.5% | 4.3% |
| Semen Indonesia Persero | Indonesia | 2,731 | 16.6 | 16.3 | 16.3 | 5.8 | 5.9 | 5.9 | 15.4% | 16.2% | 14.1% |
| Indocement Tunggul Perkasa | Indonesia | 2,192 | 18.7 | 16.7 | 16.7 | 9.2 | 9.6 | 9.6 | 12.0% | 13.2% | 13.7% |
| | | | 15.8 | 15.0 | 15.0 | 14.1 | 13.1 | 13.1 | 10% | 10% | 12% |

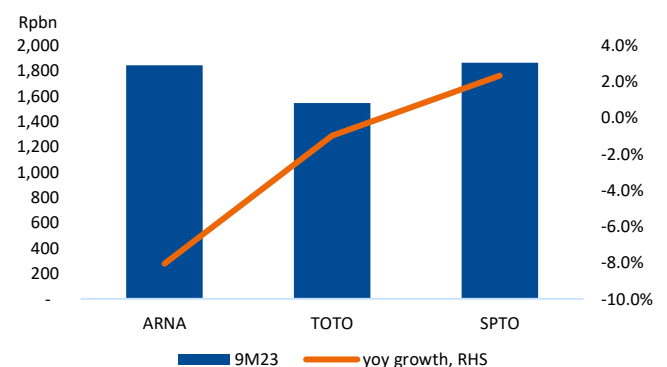
Source: BRIDS estimates, Bloomberg

Exhibit 7. Valuation

| DCF of free cash flow | |
|---|--------|
| Value of FCF in the forecasted period (Rp bn) | 7,533 |
| Terminal value (Rp bn) | 27,510 |
| Value of firm (Rp bn) | 35,043 |
| Net cash/(debt) - Rp bn | 3,510 |
| Value of equity - Rp bn | 38,553 |
| # of shares (mn shares) | 61,954 |
| Value of equity/share (Rp) | 620 |

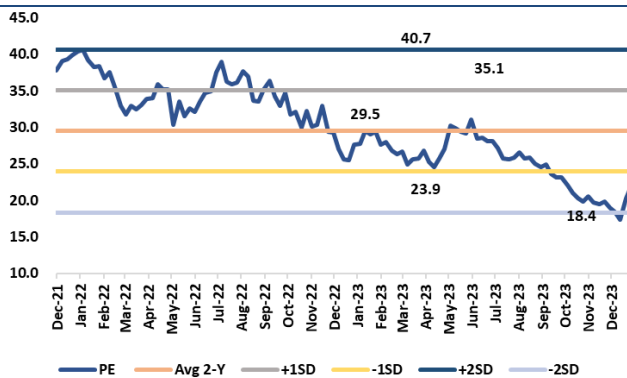
Source: BRIDS Estimates

Exhibit 8. 9M23 Revenue growth of ARNA, TOTO and SPTO



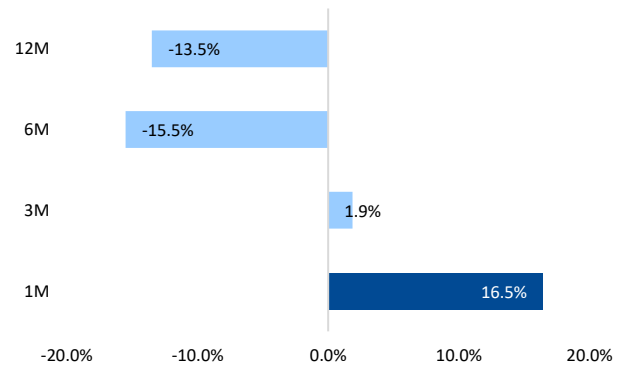
Source: Bloomberg

Exhibit 9. AVIA PE Band



Source: Bloomberg, BRIDS Estimates

Exhibit 10. Share price performance



Source: Bloomberg

Exhibit 11. 9M23 result

| AVIA | 3Q22 | 2Q23 | 3Q23 | yoy | qoq | 9M22 | 9M23 | yoy | 2023F | A/F | A/C |
|-------------------------|-------|-------|-------|--------|--------|-------|-------|-------|-------|-------|-------|
| Revenue - IDR bn | 1,724 | 1,726 | 1,656 | -4.0% | -4.1% | 4,958 | 5,164 | 4.1% | 7,015 | 73.6% | 73.3% |
| COGS | 1,161 | 949 | 958 | -17.5% | 0.9% | 2,977 | 2,882 | -3.2% | 3,958 | | |
| Gross profit | 563 | 777 | 697 | 23.8% | -10.2% | 1,981 | 2,281 | 15.2% | 3,057 | 74.6% | 75.3% |
| Opex | 345 | 337 | 343 | -0.5% | 2.0% | 855 | 1,021 | 19.5% | 1,392 | | |
| Operating profit | 218 | 440 | 354 | 62.3% | -19.6% | 1,126 | 1,260 | 11.9% | 1,665 | 75.7% | 72.1% |
| Pretax profit | 394 | 505 | 425 | 7.8% | -15.8% | 1,326 | 1,467 | 10.6% | 1,964 | | |
| Net profit | 359 | 389 | 336 | -6.4% | -13.6% | 1,080 | 1,143 | 5.8% | 1,528 | 74.8% | 74.9% |
| Gross margin | 32.7% | 45.0% | 42.1% | | | 40.0% | 44.2% | | 43.6% | | |
| Opex to revenue | 20.0% | 19.5% | 20.7% | | | 17.2% | 19.8% | | 19.8% | | |
| Operating margin | 12.7% | 25.5% | 21.4% | | | 22.7% | 24.4% | | 23.7% | | |
| Pretax margin | 22.9% | 29.2% | 25.7% | | | 26.7% | 28.4% | | 28.0% | | |
| Net margin | 20.8% | 22.5% | 20.3% | | | 21.8% | 22.1% | | 21.8% | | |
| By divisions | | | | | | | | | | | |
| | 3Q22 | 2Q23 | 3Q23 | yoy | qoq | 9M22 | 9M23 | yoy | | | |
| Revenue (IDR bn) | | | | | | | | | | | |
| Architectural solution | 1,400 | 1,397 | 1,292 | -7.8% | -7.5% | 3,999 | 4,180 | 4.5% | | | |
| Trading goods | 324 | 330 | 364 | 12.4% | 10.5% | 959 | 984 | 2.6% | | | |
| Gross margin | | | | | | | | | | | |
| Architectural solution | 37.3% | 51.4% | 49.1% | | | 45.2% | 50.4% | | | | |
| Trading goods | 12.7% | 17.9% | 17.4% | | | 18.1% | 17.8% | | | | |

Source: BRIDS estimates, Bloomberg

Exhibit 12. Income Statement

| Year to 31 Dec (Rpbn) | 2021A | 2022A | 2023F | 2024F | 2025F |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 6,780 | 6,694 | 7,015 | 7,417 | 7,916 |
| COGS | (3,954) | (3,977) | (3,958) | (4,193) | (4,474) |
| Gross profit | 2,826 | 2,717 | 3,057 | 3,224 | 3,441 |
| EBITDA | 1,928 | 1,659 | 1,894 | 2,021 | 2,160 |
| Oper. profit | 1,802 | 1,459 | 1,665 | 1,749 | 1,868 |
| Interest income | 81 | 294 | 306 | 300 | 315 |
| Interest expense | (37) | (6) | (7) | (8) | (8) |
| Forex Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Income From Assoc. Co's | (1) | (1) | 0 | 0 | 0 |
| Other Income (Expenses) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 1,845 | 1,745 | 1,964 | 2,042 | 2,175 |
| Income tax | (410) | (345) | (436) | (453) | (483) |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Net profit | 1,434 | 1,400 | 1,528 | 1,588 | 1,692 |
| Core Net Profit | 1,434 | 1,400 | 1,528 | 1,588 | 1,692 |

We estimate 4% net profit growth in FY24, supported by volume

Exhibit 13. Balance Sheet

| Year to 31 Dec (Rpbn) | 2021A | 2022A | 2023F | 2024F | 2025F |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & cash equivalent | 6,129 | 6,049 | 6,633 | 7,474 | 8,256 |
| Receivables | 1,274 | 1,177 | 1,328 | 1,404 | 1,499 |
| Inventory | 1,446 | 1,447 | 1,484 | 1,572 | 1,678 |
| Other Curr. Asset | 37 | 43 | 45 | 47 | 49 |
| Fixed assets - Net | 1,963 | 2,006 | 2,182 | 2,227 | 2,232 |
| Other non-curr.asset | 25 | 69 | 72 | 75 | 79 |
| Total asset | 10,874 | 10,792 | 11,744 | 12,799 | 13,792 |
| ST Debt | 1 | 7 | 7 | 7 | 7 |
| Payables | 824 | 587 | 682 | 722 | 771 |
| Other Curr. Liabilities | 515 | 442 | 463 | 490 | 522 |
| Long Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other LT. Liabilities | 118 | 181 | 190 | 201 | 214 |
| Total Liabilities | 1,458 | 1,217 | 1,342 | 1,420 | 1,515 |
| Shareholder's Funds | 9,412 | 9,570 | 10,398 | 11,375 | 12,272 |
| Minority interests | 3 | 5 | 5 | 5 | 5 |
| Total Equity & Liabilities | 10,874 | 10,792 | 11,744 | 12,799 | 13,792 |

Exhibit 14. Cash Flow

| Year to 31 Dec (Rpbn) | 2021A | 2022A | 2023F | 2024F | 2025F |
|----------------------------|--------------|----------------|--------------|--------------|--------------|
| Net income | 1,434 | 1,400 | 1,528 | 1,588 | 1,692 |
| Depreciation and Amort. | 125 | 199 | 229 | 271 | 291 |
| Change in Working Capital | (362) | (141) | (93) | (124) | (151) |
| Other Oper. Cash Flow | (87) | (349) | (273) | (260) | (266) |
| Operating Cash Flow | 1,111 | 1,109 | 1,391 | 1,476 | 1,565 |
| Capex | (161) | (186) | (405) | (316) | (296) |
| Others Inv. Cash Flow | 81 | 294 | 306 | 300 | 315 |
| Investing Cash Flow | (80) | 108 | (99) | (16) | 18 |
| Net change in debt | 1 | 7 | 0 | 0 | 0 |
| New Capital | 5,643 | (127) | 0 | 0 | 0 |
| Dividend payment | (2,350) | (1,115) | (700) | (611) | (794) |
| Other Fin. Cash Flow | (33) | (60) | (7) | (8) | (8) |
| Financing Cash Flow | 3,261 | (1,296) | (707) | (619) | (802) |
| Net Change in Cash | 4,292 | (80) | 585 | 841 | 781 |
| Cash - begin of the year | 1,837 | 6,129 | 6,049 | 6,633 | 7,474 |
| Cash - end of the year | 6,129 | 6,049 | 6,633 | 7,474 | 8,256 |

Exhibit 15. Key Ratios

| Year to 31 Dec | 2021A | 2022A | 2023F | 2024F | 2025F |
|--------------------------|-------|--------|-------|-------|-------|
| Growth (%) | | | | | |
| Sales | 18.3 | (1.3) | 4.8 | 5.7 | 6.7 |
| EBITDA | 23.1 | (13.9) | 14.2 | 6.7 | 6.9 |
| Operating profit | 24.5 | (19.0) | 14.1 | 5.1 | 6.8 |
| Net profit | 26.3 | (2.4) | 9.1 | 4.0 | 6.5 |
| Profitability (%) | | | | | |
| Gross margin | 41.7 | 40.6 | 43.6 | 43.5 | 43.5 |
| EBITDA margin | 28.4 | 24.8 | 27.0 | 27.2 | 27.3 |
| Operating margin | 26.6 | 21.8 | 23.7 | 23.6 | 23.6 |
| Net margin | 21.2 | 20.9 | 21.8 | 21.4 | 21.4 |
| ROAA | 17.1 | 12.9 | 13.6 | 12.9 | 12.7 |
| ROAE | 20.4 | 14.8 | 15.3 | 14.6 | 14.3 |
| Leverage | | | | | |
| Net Gearing (x) | (0.7) | (0.6) | (0.6) | (0.7) | (0.7) |
| Interest Coverage (x) | 48.6 | 225.8 | 230.5 | 230.1 | 231.5 |

Source: AVIA, BRIDS Estimates

BRI Danareksa Equity Research Team

| | | |
|-------------------------------|---|--|
| Erindra Krisnawan, CFA | Head of Equity Research, Strategy, Coal | erindra.krisnawan@brids.co.id |
| Natalia Sutanto | Consumer, Cigarettes, Pharmaceuticals, Retail | natalia.sutanto@brids.co.id |
| Niko Margaronis | Telco, Tower, Technology, Media | niko.margaronis@brids.co.id |
| Hasan Barakwan | Metal, Oil and Gas | hasan.barakwan@brids.co.id |
| Victor Stefano | Banks, Poultry, Property, Industrial Estate | victor.stefano@brids.co.id |
| Richard Jerry Tambayong | Automotive, Cement | richard.jerry@brids.co.id |
| Ismail Fakhri Suweleh | Healthcare | ismail.suweleh@brids.co.id |
| Ni Putu Wilastita Muthia Sofi | Research Associate | wilastita.sofi@brids.co.id |
| Naura Reyhan Muchlis | Research Associate | naura.muchlis@brids.co.id |
| Sabela Nur Amalina | Research Associate | sabela.amalina@brids.co.id |
| Christian Immanuel Sitorus | Research Associate | christian.sitorus@brids.co.id |

BRI Danareksa Economic Research Team

| | | |
|---------------------------|---------------------------------|--|
| Helmy Kristanto | Chief Economist, Macro Strategy | helmy.kristanto@brids.co.id |
| Dr. Telisa Aulia Falianty | Senior Advisor | telisa.falianty@brids.co.id |
| Kefas Sidauruk | Economist | kefas.sidauruk@brids.co.id |

BRI Danareksa Institutional Equity Sales Team

| | | |
|-------------------------|---|--|
| Yofi Lasini | Head of Institutional Sales and Dealing | yofi.lasini@brids.co.id |
| Novrita Endah Putrianti | Institutional Sales Unit Head | novrita.putrianti@brids.co.id |
| Ehrlich Suhartono | Institutional Sales Associate | ehrliech@brids.co.id |
| Yunita Nababan | Institutional Sales Associate | yunita@brids.co.id |
| Adeline Solaiman | Institutional Sales Associate | adeline.solaiman@brids.co.id |
| Andreas Kenny | Institutional Sales Associate | andreas.kenny@brids.co.id |
| Christy Halim | Institutional Sales Associate | christy.halim@brids.co.id |
| Jason Joseph | Institutional Sales Associate | jason.joseph@brids.co.id |

BRI Danareksa Sales Traders

| | | |
|----------------|----------------------|--|
| Mitcha Sondakh | Head of Sales Trader | mitcha.sondakh@brids.co.id |
| Suryanti Salim | Sales Trader | suryanti.salim@brids.co.id |

INVESTMENT RATING

| | |
|-------------|---|
| BUY | Expected total return of 10% or more within a 12-month period |
| HOLD | Expected total return between -10% and 10% within a 12-month period |
| SELL | Expected total return of -10% or worse within a 12-month period |

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