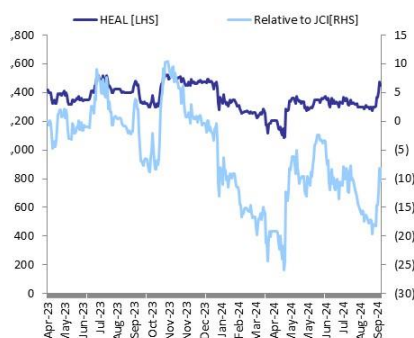


# Buy

(Maintained)

Last Price (Rp)	1,450
Target Price (Rp)	2,000
Previous Target Price (Rp)	2,000
Upside/Downside	+37.9%
No. of Shares (mn)	14,713
Mkt Cap (Rpbn/US\$mn)	21,334/1,404
Avg, Daily T/O (Rpbn/US\$mn)	11.4/0.7
Free Float (%)	28.4
Major Shareholder (%)	
Yulisar Khiat	12.5
Astra International	7.4
EPS Consensus (Rp)	
	2024F 2025F 2026F
BRIDS	44.7 54.1 63.8
Consensus	40.3 47.0 54.1
BRIDS/Cons (%)	10.8 15.0 16.8

## HEAL relative to JCI Index



Source: Bloomberg

### BRI Danareksa Sekuritas Analysts

**Ismail Fakhri Suweleh**

(62-21) 5091 4100 ext. 3505

ismail.suweleh@brids.co.id

**Wilastita Muthia Sofi**

(62-21) 5091 4100 ext. 3509

wilastita.sofi@brids.co.id

## Medikaloka Hermina (HEAL II)

### On Track 9M24 Performance; Potential Upsides from COB implementation

- Mgmt. indicated progress in BOR ramp-up and continuous cost-savings, translating to on-track financial performance, in our view.
- New regulation regarding CoB is set to uplift the revenue/patient for HEAL by 8-15% from the conversion of its Class-I JKN patients to CoB.
- We reiterate our Buy rating and DCF-based TP of Rp2,000; we believe the current valuation overlooks its superior operational performance.

#### 9M24 profit potentially on track driven by continuous cost-saving efforts

Our recent meeting with management indicated that 9M24 performance will be on track with its FY24F guidance (Revenue of Rp6.6-6.7tr; with EBITDA Margin of ~28.7%, supported by volume growth from the bed occupancy ramp-up of its 845 newly opened beds during 1H24, and continuous cost-saving efforts especially in opex-salary costs, reaping the benefits of IT implementation. **Using historical quarterly contribution, we estimate HEAL to book ~Rp162-186bn in 3Q24 net profit (+7-22% qoq), bringing its 9M24 net profit to ~Rp505-529bn (+45-52% yoy; 78-82%/82-86% to our/cons) (exh.6).**

#### New CoB Regulation Set to Uplift HEAL's Future Revenue Intensity

The new Health Minister regulation on Coordination of Benefit (CoB) stipulates that for Class I JKN patients who wish to upgrade to VIP services, hospitals can charge a maximum of 200% INACBG as the new CoB tariff, with no additional out-of-pocket (OOP) expenses for the patients (see exhibits 1-2). Among HEAL's approximately 70% JKN payer mix, 40% are Class I patients, who we anticipate will be inclined to upgrade their services using CoB. This expectation is based on the incentive of no additional OOP charges and the need to maintain a similar service level as the upcoming standardization in 2H25 will change the existing layout of 2-3 beds/room for Class I to become 4 beds/room. **This shift among Class I JKN patients is projected to result in ~7-15% higher revenue per patient, according to our estimates (see exh.3).**

#### Maintain Buy rating with TP of Rp2,000; Remains our Top Pick in the Sector

We maintain our Buy rating on HEAL with a DCF-based TP of Rp2,000 (implying 16.6/14.6x FY24F/FY25 EV/EBITDA). We believe that the current valuation of 12.4/10.9x FY24F/FY25F EV/EBITDA (~31% disc. to regional peers) (**exh.8**) is unwarranted given its consistent growth and margin expansion despite serving lower-margin JKN patients, with potential higher intensity going forward from shift in ~40% of JKN payer mix to use CoB. Key risks include: 1) JKN deficits impacting receivables 2) lower intensity growth.

#### Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Revenue (Rpbn)	4,902	5,784	6,747	7,751	8,952
EBITDA (Rpbn)	1,106	1,476	1,914	2,177	2,459
EBITDA Growth (%)	(49.2)	33.5	29.7	13.7	12.9
Net Profit (Rpbn)	299	437	648	784	917
EPS (Rp)	20.3	30.2	44.7	54.1	63.2
EPS Growth (%)	(70.0)	48.6	48.3	20.9	16.9
BVPS (Rp)	233.9	266.8	302.5	343.3	390.3
DPS (Rp)	6.1	7.1	8.9	13.2	15.9
PER (x)	71.4	48.1	32.4	26.8	22.9
PBV (x)	6.2	5.4	4.8	4.2	3.7
Dividen yield (%)	0.4	0.5	0.6	0.9	1.1
EV/EBITDA	19.7	15.3	11.5	9.9	8.6

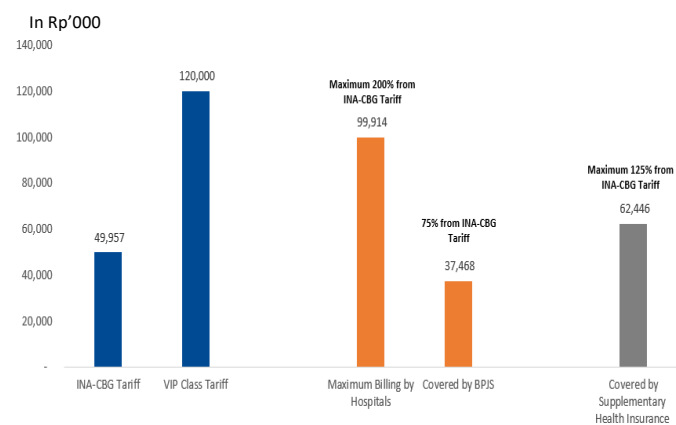
Source: HEAL, BRIDS Estimates

## On Track 9M24 Performance; Potential Upsides from COB implementation

### Defensive stock with minimal downside risks

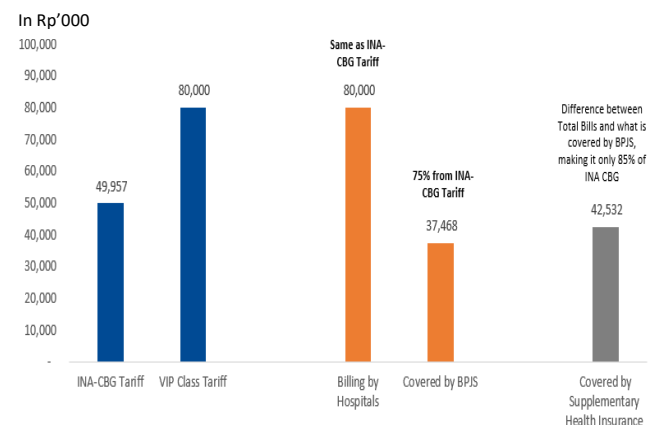
We believe HEAL offers a defensive option for investors in ST, given minimal earnings downside risks (we believe 3Q24/4Q24 earnings should at least meet consensus forecast). Thus, we believe any share price correction is an opportunity to add (**see fund positioning in exh.10**). Upside risks could come from higher-than-anticipated EBITDA margin achievement (higher patient traffic growth in 3Q24; continuous cost-savings), potentially yielding a net profit surprise and better share-price appreciation.

**Exhibit 1. CoB Billing Scheme (Case 1: Billing of Hospitals's VIP Class>200% INACBG)**



Source: KMK Nomor HK.01.07/MENKES/1366/2024

**Exhibit 2. CoB Billing Scheme (Case 2: INACBG<Billing of Hospital's VIP Class<200% INACBG)**



Source: KMK Nomor HK.01.07/MENKES/1366/2024

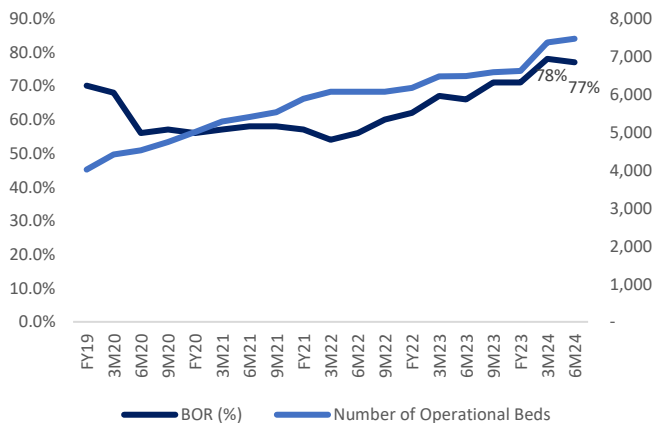
**Exhibit 3. Revenue/Patient Variance Analysis; Example on Light C-Section Treatment, an INACBG Cases with The Most Admission (According to Buku Statistik JKN 2016-2021), with Coding per Patients Referring to Permenkes No.3/2023**

Old Structure		New Structure (50% Conversion Rate*)		New Structure (100% Conversion Rate*)	
IP Days HEAL (1H24) ('000)	1,029	IP Days HEAL (1H24)	1029	IP Days HEAL (1H24)	1,029
<i>with Estimated Mix of</i>		<i>with Estimated Mix of</i>		<i>with Estimated Mix of</i>	
JKN Class I	40%	JKN Class I	20%	JKN Class I	0%
JKN Class II-III	34%	JKN Class II-III	34%	JKN Class II-III	34%
Private	26%	JKN CoB Selisih Tarif	20%	JKN CoB Selisih Tarif	40%
		Private	26%	Private	26%
Coding per patient (Rp'000)					
<i>Light Caesarean Section (INA CBGO-6-10-I) - Referring to Permenkes No.3/2023</i>					
<i>Inpatient - Private Class B Hospitals at Regional 1</i>					
JKN Class I	6,984	JKN Class I	6,984	JKN Class I	6,984
JKN Class II-III Median	5,684	JKN Class II-III Median	5,684	JKN Class II-III Median	5,684
Private (Class I Tariff + 40%)	9,777	JKN CoB Selisih Tarif	9,777	JKN CoB Selisih Tarif	9,777
		Private (Class I Tariff + 40%)	9,777	Private (Class I Tariff + 40%)	9,777
Wgt.average Rev/patient	7,268	Wgt.average Rev/patient	7,827	Wgt.average Rev/patient	8,386
		Variance from Old Structure	7.7%	Variance from Old Structure	15.4%

\*Conversion Rate meaning the % of Class I JKN Patients Chose to Upgrade its Service using CoB Selisih Tarif

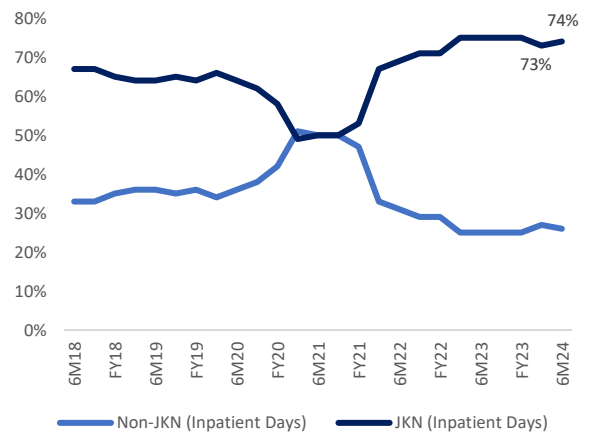
Source: BRIDS

Exhibit 4. HEAL Bed Occupancy Ratio (BOR%) Trend



Source: Company, BRIDS

Exhibit 5. HEAL's Payer Mix



Source: Company, BRIDS

Exhibit 6. HEAL's Seasonality Trend (Volume and Net Profit)

IP Volume Trend (%Contribution to FY)		2019	2020	2021	2022	2023	Avg.	Avg. ex-COVID	IP Days	Hypothetical FY24	%yoy
1Q		26%	29%	24%	22%	22%	25%	24%	522	2,168	25%
2Q		24%	20%	25%	23%	23%	23%	23%	507		
3Q		25%	24%	25%	27%	26%	25%	25%			
4Q		26%	27%	26%	28%	29%	27%	27%			

OP Volume Trend (%Contribution to FY)		2019	2020	2021	2022	2023	Avg.	Avg. ex-COVID	OP Visits	Hypothetical FY24	%yoy
1Q		26%	36%	22%	23%	24%	26%	25%	2,200	8,942	12%
2Q		21%	16%	26%	23%	22%	21%	21%	2,047		
3Q		26%	24%	22%	27%	26%	25%	26%			
4Q		26%	24%	30%	27%	29%	27%	27%			

Net Profit Quarterly Trend (%Contribution to FY)		2019	2020	2021	2022	2023	Avg.	Avg. ex-COVID	Net Profit	BRIDS FY24F	
1Q		22%	15%	28%	37%	25%	26%	24%	191	648	
2Q		34%	7%	26%	18%	21%	21%	28%	152		
3Q		26%	33%	23%	27%	33%	29%	30%	3Q-F	186	22%
4Q		18%	45%	22%	18%	20%	25%	19%	3Q-F	162	7%

using Avg. (29% to ours FY24F) Net Profit %qoq %yoy

Base Case (25% to ours FY24F) Net Profit %qoq %yoy

Source: Company, BRIDS

Exhibit 7. HEAL's Valuation Summary

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	0	1	2	3	4	5	6	7	8	9	10
EBIT * (1-tax)	905	1,047	1,199	1,386	1,632	1,907	2,253	2,531	2,885	3,296	3,774
Depreciation	707	786	870	962	1,085	1,198	1,318	1,455	1,597	1,759	1,944
Change in working capital	(9)	30	39	42	45	48	51	69	72	81	92
Capex	1,287	1,135	1,223	1,312	1,750	1,608	1,695	1,932	1,998	2,275	2,592
Minority interest	188	228	266	315	375	444	532	607	701	810	936
FCFF	128	501	619	763	637	1,102	1,394	1,516	1,854	2,051	2,282
%yoy			24%	23%	-16%	73%	27%	9%	22%	11%	11%
Discount factor	1.00	1.08	1.17	1.26	1.36	1.47	1.59	1.71	1.85	2.00	2.16
Present value of FCFF	128	464	530	606	468	750	878	884	1,001	1,026	1,056
Terminal value											49,232
PV of terminal value											22,789
NPV		IDR Bn	30,581								
Net debt (as of end 2024)		IDR Bn	810								
Equity value		IDR Bn	29,771								
Outstanding share		Bn sh	14.71								
Equity value per share		IDR/sh	2,023								
Target price		IDR/sh	2,000								
Current price		IDR/sh	1,450								
% upside/(downside)		%	37.9%								
Rating			BUY								

Assumptions		
Market return (Rm)	%	14.2%
Risk free rate	%	7.5%
Market risk premium	%	6.7%
Tax rate	%	21.3%
Adjusted Beta	x	0.3
Debt portion 2024	x	37.0%
Cost of equity	%	9.4%
Cost of debt	%	7.2%
WACC	%	8.0%
Terminal growth	%	3.0%

Source: BRIDS Estimates

### Exhibit 8. HEAL's Peers Valuation

Ticker	Company	Mkt.Cap (US\$ mn.)	EV/EBITDA		
			FY24F	FY25F	FY26F
Healthcare Indonesia					
HEAL IJ*	MEDIKALOKA HERMINA TBK PT	1,465	12.4	10.9	9.6
MIKA IJ*	MITRA KELUARGA KARYASEHAT TBK	2,885	23.0	19.0	15.6
SILO IJ*	SILOAM INTERNATIONAL HOSPITAL	2,634	14.5	10.8	8.6
Emerging Market Peers					
000516 CH	XIAN INTERNATIONAL MEDICAL-A	1,316	15.5	10.9	8.3
NARH IN	NARAYANA HRUDAYALAYA LTD	3,000	21.9	20.5	18.0
MEDANTA in	GLOBAL HEALTH LTD/INDIA	3,545	34.4	32.5	26.8
301239 CH	CHENGDU BRIGHT EYE HOSPITA-A	616	11.6	8.9	7.5
ASTERDM IN	ASTER DM HEALTHCARE LTD	2,534	12.1	31.0	24.8
KIMS IN	KRISHNA INSTITUTE OF MEDICAL	2,611	35.0	30.2	25.0
RAM TB	RAMKHAMHAENG HOSPITAL PUB CO	918	24.4	21.3	19.3
IHH MK	IHH SINGAPORE	14,883	14.6	13.6	12.6
TNH VN	THAI NGUYEN INTL HSPTL JSC	111	13.5	10.8	10.1
BH TB	BUMRUNGRAD HOSPITAL PCL	6,651	20.1	18.9	18.2
BDMS TB	BANGKOK DUSIT MED SERVICE	15,053	18.9	17.7	16.4
KPJ MK	KPJ HEALTHCARE BERHAD	2,220	15.0	13.9	12.9
OPTIMAX MK	OPTIMAX HOLDINGS BHD	88	12.0	10.1	9.5
RFMD SP	RAFFLES MEDICAL GROUP LTD	1,271	11.5	10.7	9.8
MPARK TI	MLP SAGLIK HIZMETLERI AS	2,048	7.3	5.3	4.4
Developed Market Peers					
HCA US	HCA HEALTHCARE INC	104,432	10.5	9.9	9.4
UHS US	UNIVERSAL HEALTH SERVICES-B	15,879	9.3	8.8	8.3
THC US	TENET HEALTHCARE CORP	15,826	7.7	7.5	7.0
CYH US	COMMUNITY HEALTH SYSTEMS INC	820	8.3	7.8	7.3
RHC AU	RAMSAY HEALTH CARE LTD	6,344	9.5	9.2	8.5
Indonesia					
Median		2,634	14.5	10.9	9.6
Simple Average		2,328	16.6	13.6	11.3
Weighted Average		2,492	17.6	14.2	11.7
Emerging Market Peers					
Median		2,377	15.0	13.9	12.9
Simple Average		3,547	17.9	17.1	14.9
Weighted Average		8,743	18.6	18.0	16.1
Developed Market Peers					
Median		15,826	9.3	8.8	8.3
Simple Average		28,660	9.1	8.6	8.1
Weighted Average		79,899	10.0	9.5	9.0

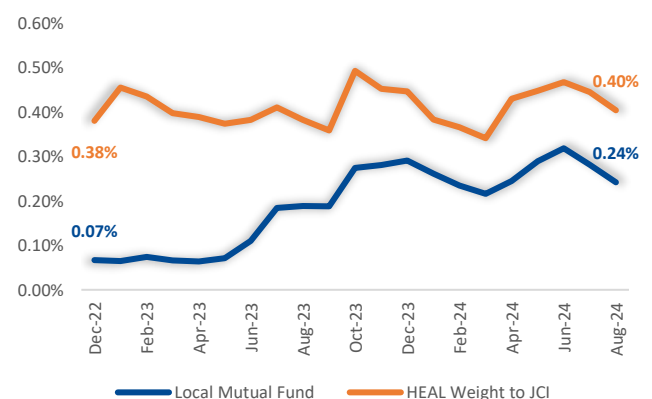
Source: \*BRIDS Estimates, Bloomberg

### Exhibit 9. HEAL's daily rolling fwd EV/EBITDA Band



Source: Company, Bloomberg, BRIDS Estimates

### Exhibit 10. Domestic Fund Positioning



Source: KSEI, BRIDS

**Exhibit 11. Income Statement**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
<b>Revenue</b>	<b>4,902</b>	<b>5,784</b>	<b>6,747</b>	<b>7,751</b>	<b>8,952</b>
COGS	(3,193)	(3,709)	(4,144)	(4,745)	(5,478)
<b>Gross profit</b>	<b>1,708</b>	<b>2,075</b>	<b>2,603</b>	<b>3,006</b>	<b>3,474</b>
<b>EBITDA</b>	<b>1,106</b>	<b>1,476</b>	<b>1,914</b>	<b>2,177</b>	<b>2,459</b>
<b>Oper. profit</b>	<b>516</b>	<b>781</b>	<b>1,150</b>	<b>1,330</b>	<b>1,523</b>
Interest income	33	32	34	71	94
Interest expense	(140)	(140)	(185)	(189)	(198)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	71	37	63	73	84
<b>Pre-tax profit</b>	<b>480</b>	<b>710</b>	<b>1,063</b>	<b>1,285</b>	<b>1,503</b>
Income tax	(101)	(151)	(226)	(273)	(320)
Minority interest	(80)	(122)	(188)	(228)	(266)
<b>Net profit</b>	<b>299</b>	<b>437</b>	<b>648</b>	<b>784</b>	<b>917</b>
<b>Core Net Profit</b>	<b>299</b>	<b>437</b>	<b>648</b>	<b>784</b>	<b>917</b>

**Exhibit 12. Balance Sheet**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Cash & cash equivalent	775	855	1,772	2,333	2,990
Receivables	898	963	1,088	1,245	1,432
Inventory	100	117	121	138	159
Other Curr. Asset	17	14	17	19	22
Fixed assets - Net	5,110	5,874	6,422	6,740	7,061
Other non-curr.asset	691	979	677	778	899
<b>Total asset</b>	<b>7,591</b>	<b>8,803</b>	<b>10,098</b>	<b>11,254</b>	<b>12,563</b>
ST Debt	148	255	473	491	527
Payables	815	924	886	1,014	1,170
Other Curr. Liabilities	748	374	555	637	735
Long Term Debt	1,040	1,880	2,040	2,123	2,224
Other LT. Liabilities	156	171	241	267	235
<b>Total Liabilities</b>	<b>2,906</b>	<b>3,604</b>	<b>4,194</b>	<b>4,532</b>	<b>4,892</b>
Shareholder's Funds	3,441	3,869	4,387	4,977	5,660
Minority interests	1,245	1,329	1,517	1,745	2,011
<b>Total Equity &amp; Liabilities</b>	<b>7,591</b>	<b>8,803</b>	<b>10,098</b>	<b>11,254</b>	<b>12,563</b>

**Exhibit 13. Cash Flow**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Net income	299	437	648	784	917
Depreciation and Amort.	554	646	707	786	870
Change in Working Capital	(74)	(103)	(137)	(83)	(106)
Other Oper. Cash Flow	(68)	189	238	125	159
<b>Operating Cash Flow</b>	<b>711</b>	<b>1,170</b>	<b>1,457</b>	<b>1,612</b>	<b>1,840</b>
Capex	(1,126)	(1,410)	(1,256)	(1,103)	(1,191)
Others Inv. Cash Flow	(75)	(268)	318	(82)	(98)
<b>Investing Cash Flow</b>	<b>(1,202)</b>	<b>(1,678)</b>	<b>(938)</b>	<b>(1,185)</b>	<b>(1,290)</b>
Net change in debt	71	522	321	101	74
New Capital	74	107	0	0	0
Dividend payment	(90)	(105)	(131)	(194)	(234)
Other Fin. Cash Flow	(77)	65	207	228	266
<b>Financing Cash Flow</b>	<b>(21)</b>	<b>589</b>	<b>397</b>	<b>135</b>	<b>106</b>
<b>Net Change in Cash</b>	<b>(512)</b>	<b>80</b>	<b>916</b>	<b>562</b>	<b>657</b>
Cash - begin of the year	1,287	775	855	1,772	2,333
Cash - end of the year	775	855	1,772	2,333	2,990

**Exhibit 14. Key Ratio**

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth (%)</b>					
Sales	(16.5)	18.0	16.6	14.9	15.5
EBITDA	(49.2)	33.5	29.7	13.7	12.9
Operating profit	(70.3)	51.2	47.3	15.7	14.5
Net profit	(70.0)	46.5	48.3	20.9	16.9
<b>Profitability (%)</b>					
Gross margin	34.9	35.9	38.6	38.8	38.8
EBITDA margin	22.6	25.5	28.4	28.1	27.5
Operating margin	10.5	13.5	17.0	17.2	17.0
Net margin	6.1	7.6	9.6	10.1	10.2
ROAA	3.9	5.3	6.9	7.3	7.7
ROAE	8.8	12.0	15.7	16.7	17.2
<b>Leverage</b>					
Net Gearing (x)	0.1	0.2	0.1	0.0	0.0
Interest Coverage (x)	3.7	5.6	6.2	7.0	7.7

Source: HEAL, BRIDS Estimates



**BRI Danareksa Equity Research Team**

Erindra Krisnawan, CFA	Head of Equity Research, Strategy, Coal	<a href="mailto:erindra.krisnawan@brids.co.id">erindra.krisnawan@brids.co.id</a>
Natalia Sutanto	Consumer, Cigarettes, Pharmaceuticals, Retail	<a href="mailto:natalia.sutanto@brids.co.id">natalia.sutanto@brids.co.id</a>
Niko Margaronis	Telco, Tower, Technology, Media	<a href="mailto:niko.margaronis@brids.co.id">niko.margaronis@brids.co.id</a>
Timothy Wijaya	Metal, Oil and Gas	<a href="mailto:timothy.wijaya@brids.co.id">timothy.wijaya@brids.co.id</a>
Victor Stefano	Banks, Poultry	<a href="mailto:victor.stefano@brids.co.id">victor.stefano@brids.co.id</a>
Ismail Fakhri Suweleh	Healthcare, Property, Industrial Estate	<a href="mailto:ismail.suweleh@brids.co.id">ismail.suweleh@brids.co.id</a>
Richard Jerry, CFA	Automotive, Cement, Infrastructure	<a href="mailto:richard.jerry@brids.co.id">richard.jerry@brids.co.id</a>
Ni Putu Wilastita Muthia Sofi	Research Associate	<a href="mailto:wilastita.sofi@brids.co.id">wilastita.sofi@brids.co.id</a>
Naura Reyhan Muchlis	Research Associate	<a href="mailto:naura.muchlis@brids.co.id">naura.muchlis@brids.co.id</a>
Sabela Nur Amalina	Research Associate	<a href="mailto:sabela.amalina@brids.co.id">sabela.amalina@brids.co.id</a>
Christian Immanuel Sitorus	Research Associate	<a href="mailto:christian.sitorus@brids.co.id">christian.sitorus@brids.co.id</a>

**BRI Danareksa Economic Research Team**

Helmy Kristanto	Chief Economist, Macro Strategy	<a href="mailto:helmy.kristanto@brids.co.id">helmy.kristanto@brids.co.id</a>
Dr. Telisa Aulia Falianty	Senior Advisor	<a href="mailto:telisa.falianty@brids.co.id">telisa.falianty@brids.co.id</a>
Kefas Sidauruk	Economist	<a href="mailto:kefas.sidauruk@brids.co.id">kefas.sidauruk@brids.co.id</a>

**BRI Danareksa Institutional Equity Sales Team**

Yofi Lasini	Head of Institutional Sales and Dealing	<a href="mailto:yofi.lasini@brids.co.id">yofi.lasini@brids.co.id</a>
Novrita Endah Putrianti	Institutional Sales Unit Head	<a href="mailto:novrita.putrianti@brids.co.id">novrita.putrianti@brids.co.id</a>
Ehrlicch Suhartono	Institutional Sales Associate	<a href="mailto:ehrliech@brids.co.id">ehrliech@brids.co.id</a>
Yunita Nababan	Institutional Sales Associate	<a href="mailto:yunita@brids.co.id">yunita@brids.co.id</a>
Adeline Solaiman	Institutional Sales Associate	<a href="mailto:adeline.solaiman@brids.co.id">adeline.solaiman@brids.co.id</a>
Andreas Kenny	Institutional Sales Associate	<a href="mailto:andreas.kenny@brids.co.id">andreas.kenny@brids.co.id</a>
Christy Halim	Institutional Sales Associate	<a href="mailto:christy.halim@brids.co.id">christy.halim@brids.co.id</a>
Jason Joseph	Institutional Sales Associate	<a href="mailto:jason.joseph@brids.co.id">jason.joseph@brids.co.id</a>

**BRI Danareksa Sales Traders**

Mitcha Sondakh	Head of Sales Trader	<a href="mailto:mitcha.sondakh@brids.co.id">mitcha.sondakh@brids.co.id</a>
Suryanti Salim	Sales Trader	<a href="mailto:suryanti.salim@brids.co.id">suryanti.salim@brids.co.id</a>

**INVESTMENT RATING**

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

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