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Teaser

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## HARTADINATA ABADI

BUY

Indonesia's leading gold player

Estimated (Dec)	2020A	2021A	2022A	2023A
Revenue (Rp bn)	4139	5258	6918	12857
Net profit (Rp bn)	171	194	254	306
EPS (Rp)	37	42	55	66
EPS Change (YoY)	14.1	13.6	30.7	20.5
PE (x)	10.5	9.2	7.0	5.8
PBV (x)	1.3	1.2	1.0	0.9
ROE	12.6	12.8	14.8	15.5
Net gearing	1.0	1.3	1.2	1.4
Dividend yield	2.1	2.1	2.6	3.1

### Historical 5Yr Key Performance (2019–2023):

Revenue growth	297.4%	ROE	13.81%
Earnings growth	103.7%	ROIC	10.49%
FCF Growth	87.5%	Dividend Yield	2.47%
5-Yr PE	6.1	Operating Margin	7.09%
5-Yr EV/EBITDA	6.3	Net gearing	1.06

### Capitalizing on gold price momentum

HRTA's distinct business model, where profit margins are calculated based on sales volume rather than sales value, positions the company to capitalize on the rising gold price environment. The bulk of HRTA's gold jewellery is distributed via wholesalers, who compensate the company with gold (typically in the form of scrap or equivalent) in exchange. In the soaring gold price environment, HRTA stands to benefit significantly. Higher gold prices will lead to increased average selling prices (ASP) and revenue for the company. Additionally, HRTA will experience a rise in inventory value, which will be reflected in higher profit margins.

### Tailwind from export to boost cash flows

Since Mar '23, HRTA has been exporting the 22 carat jewellery to partners in India. The company targets to sell 400–500 kg of jewellery per month, which could translate into an additional revenue of IDR4.5 tn/year. The potential gross margin will be lower compared to margin on selling gold bar with high mass of 4–5%. However, the trade-off will improve cash flow, taking into consideration that payment uses cash (paid upfront).

### Strong earnings growth outlook

In 2023, HRTA achieved a net profit of IDR306 billion, marking a robust 20.5% year-on-year increase. This growth was propelled by a strong top-line performance, with revenue surging an astronomical 85.8% to IDR12.9 trillion, driven by an 8% increase in sales volume. Furthermore, HRTA generated a negative operating cash flow of IDR700 billion in 2023, primarily attributed to higher working capital needs as the business is currently at the investment phase. Unlike jewellery product sales, which often involve settlements in scrap gold, gold bar revenue is typically settled on a cash basis. Gold bar revenue accounted for 69.4% of the total revenue, up from 43.3% in 2022.

### Healthy balance sheet to support expansion

HRTA has strong & healthy balance sheet that should enable the company to further expand and boost market share. Although the company leverage ratio has increased over the years with net debt-to-equity at 1.3x in FY23, it is still at healthy level below their bank loan covenant of 2.5X

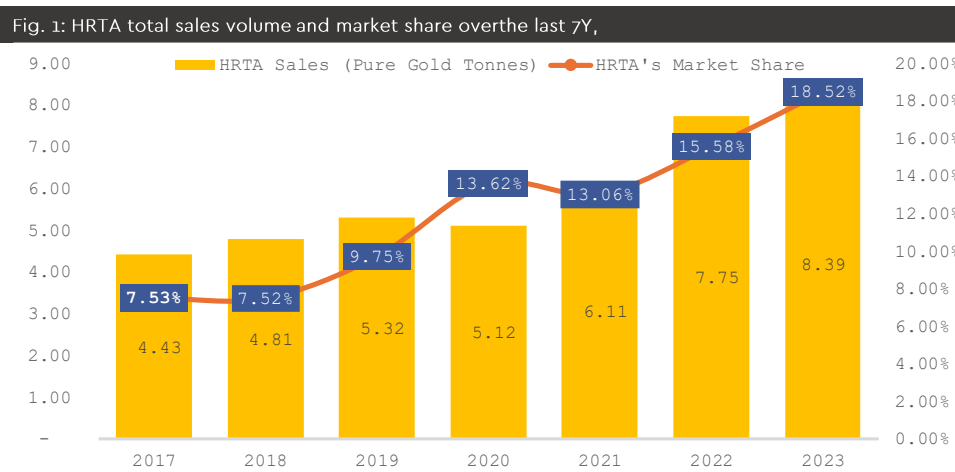
## Investment Thesis

### Premier Gold player with a proven track record

Established in 2004, boasting over two decades of modern gold jewelry manufacturing expertise, Hartadinata Abadi (HRTA) stands as a distinguished industry leader, commanding a significant 18.52% market share in domestic gold bar and jewelry sales.

The company's robust infrastructure includes four cutting-edge gold casting factories, each with an impressive annual output capacity of 30 tons, and a state-of-the-art gold refinery projected to achieve a 13.5-ton output by 2024. Complementing this infrastructure are 85 proprietary retail stores and 91 pawn shops strategically located across major cities, forming a formidable retail presence.

HRTA has forged a formidable distribution network encompassing over 80 wholesalers and over 900 independent retail outlets nationwide. Notably, the company's manufacturing and refinery facilities operated at a modest 42.2% utilization rate in 2023, indicating substantial growth potential and minimal capital expenditure requirements in the foreseeable future.



Source: Hartadinata Abadi, Sucor Sekuritas

**Fig. 2: Revenue and GPM by Segment**

Revenue By Segment	2018	2019	2020	2021	2022	2023
Wholesale	89.5%	86.1%	91.3%	90.6%	90.9%	84.4%
Store	10.4%	10.8%	7.9%	8.2%	7.8%	15.0%
Franchise	0.1%	0.3%	0.2%	0.2%	0.2%	0.1%
Pawn Shop	0.0%	2.9%	0.6%	1.1%	1.1%	0.5%
Refining Services						0.0%
GPM By Segment	2018	2019	2020	2021	2022	2023
Wholesale	9.4%	9.6%	9.9%	10.7%	10.1%	6.1%
Store	8.9%	10.0%	10.1%	10.6%	12.2%	12.6%
Franchise	39.0%	39.0%	30.4%	27.5%	22.6%	23.1%
Pawn Shop		38.8%	43.2%	33.2%	50.9%	64.5%
Refining Services						76.7%
<b>Total GPM</b>	<b>9.4%</b>	<b>10.6%</b>	<b>10.2%</b>	<b>10.9%</b>	<b>10.7%</b>	<b>7.4%</b>

Source: Company, Sucor Sekuritas

**How does the business work?**

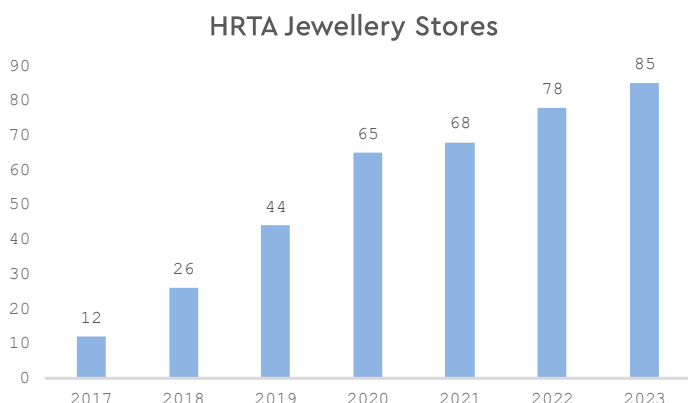
The company sells majority (~51%) of its gold products to wholesalers and, in return, the company will receive gold (usually in form of scrap gold or other gold equivalent) plus margin as payments are made in 90 days when they sell jewellery while when the company sells gold bars they get payments in cash within 30 days. The company also runs its own jewellery store which contributes around 15-16% to total sales.

**How do they plan to expand?**

The company is committed to enhancing its market penetration through the expansion of its retail footprint, with plans to increase the number of retail stores from 85 in 2023 to 125 by 2025. Simultaneously, it aims to grow its pawnshop network from 91 in 2023 to 105 by 2025. This aggressive expansion of in-house retail outlets is expected to reduce dependency on wholesalers gradually while also optimizing the working capital cycle. Notably, receivables days, which currently stand at up to 90 days for gold jewellery sales to wholesalers, are anticipated to improve as a result of this strategy.

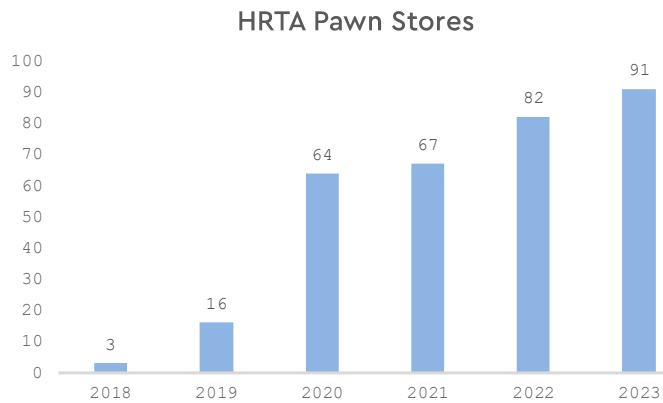
Additionally, since 2018, HRTA has been strategically expanding its pawnshop business, focusing specifically on gold pawn services with a competitive loan rate ranging from 1.8% to 2% per month for debtors. The company has witnessed a remarkable surge in the number of its pawn shops, rising from just three stores in 2017 to an impressive 91 stores by 2023. Looking ahead, HRTA aims to further bolster its pawnshop network, with 105 stores by 2025.

Fig. 3: HRTA's Jewellery Stores



Source: Hartadinata Abadi, Sucor Sekuritas

Fig. 4: Astronomical growth in Pawnshops



Source: Hartadinata Abadi, Sucor Sekuritas

**HRTA's MOAT**

**Formidable barriers of entry**

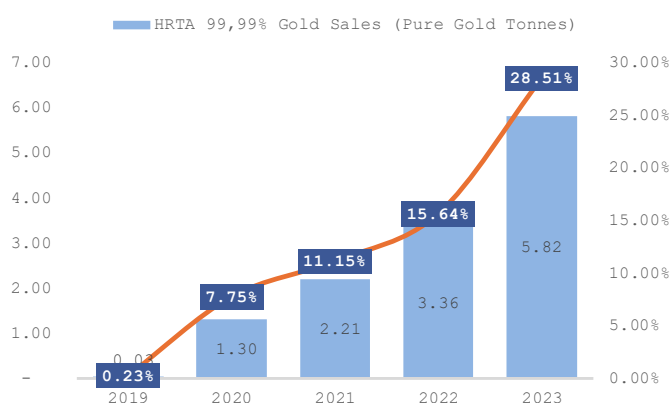
In Indonesia, only a handful of firms specialize in gold jewelry manufacturing and trading. Given its reliance on trust and reputation, the industry falls under the high concentration-high barriers classification, with competition predominantly centered on design, product quality, and service. Over two decades, HRTA has nurtured strong relationships with wholesalers and customers, solidifying its position as a trusted and esteemed entity within the sector.

The company's robust infrastructure includes four cutting-edge gold casting factories, each with an impressive annual output capacity of 30 tons, and a state-of-the-art gold refinery projected to achieve a 13.5-ton output by 2024. Complementing this infrastructure are 85 proprietary retail stores and 91 pawn shops strategically located across major cities, forming a formidable retail presence.

### Brand and Reputation

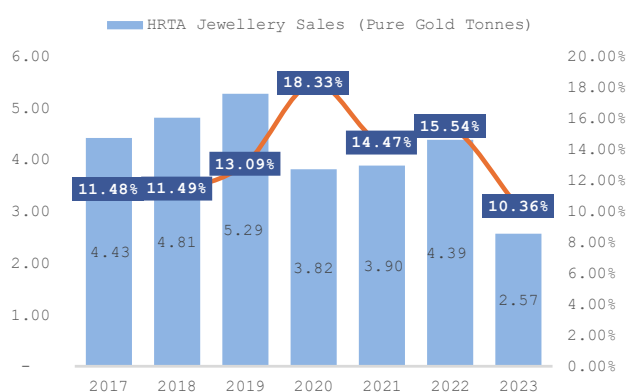
In 2021, HRTA initiated a ground-breaking collaboration with Indonesia's premier fine gold manufacturer, through PT EMAS ANTAM INDONESIA, a subsidiary of PT Aneka Tambang (Antam), introducing Emaskita (gold bar) and Kencana brand (jewelry with 99.99% gold content). This exclusive partnership positioned HRTA as the sole company with such a prestigious alliance with Antam. Consequently, HRTA experienced remarkable growth in its fine gold market share, soaring from 0.2% in 2017 to an impressive 11.1% by 2021. Similarly, the company's jewelry market share has remained above 10% for the past 7 years.

Fig. 5: HRTA's gold bar sales volume & market share



Source: Hartadinata Abadi, Sucor Sekuritas

Fig. 6: Growing pure gold contribution to revenue (%)



Source: Hartadinata Abadi, Sucor Sekuritas

### Dynamics of Gold Price Evolution

Gold is trading above \$2,000 per ounce in early 2024. Analysts expect that even later in the year, gold prices may remain above \$2,000 per ounce, reaching new historical highs. Among the factors favouring this are geopolitical uncertainty, the likely weakening of the U.S. dollar, and potential interest rate cuts.

For nearly a century, the ebb and flow of gold value hinged on the intricate dance between Western and Eastern markets. Western nations dictated supply and demand, while their Eastern counterparts served as transaction counterparts. Consequently, fluctuations in physical gold transactions, notably by nations like Great Britain and Switzerland, mirrored corresponding shifts in gold prices, with increases or decreases synchronously influencing one another. This symbiotic relationship facilitated the movement of gold from West to East and vice versa.

A second influential factor historically shaping gold prices was the interplay between gold prices and the real yield on U.S. government bonds. As real yields declined, investors flocked to gold, disillusioned with the diminishing appeal of bonds. Conversely, when real yields ascended, investors gravitated back towards bonds.

However, a paradigm shift has emerged since the close of 2022, defying conventional wisdom. Despite the U.S. ten-year bond yield surging to 4.33%, surpassing 2022 peaks and marking a 15-year high, gold prices failed to retreat. Instead, they surged from November 2022 to August 2023 by a significant 16%, soaring from \$1,643 to \$1,954 per ounce.

Simultaneously, the historical correlation between gold transaction volumes and gold prices has faltered. Since the third quarter of 2022, the UK and Switzerland have transitioned into net exporters of gold, traditionally signaling a decline in gold prices. However, contrary to expectations, gold prices have not responded accordingly. Consequently, the West's influence on precious metal pricing appears to have waned significantly.

### What affects gold price in 2024 ?

#### Increasing geopolitical tensions are fueling a rise in the value of gold

Following the geopolitical events of 2022, dollar assets have grown riskier for numerous nations. Central banks across the Global South, Eastern Europe, and the Middle East have been proactively bolstering their gold reserves since late 2022. As per a World Gold Council (WGC) report, central banks acquired 800 tonnes of gold in the initial nine months of 2023, marking a 14% increase year-on-year. The heightened demand from central banks propelled the value of gold by 10% in 2023.

#### The sustained stabilization of inflation will further bolster gold prices

In 2022, global inflation surged to its highest levels in decades, but it peaked by the end of 2023. Analysts widely anticipate further easing of inflationary pressures throughout 2024. Conventionally, gold prices have shown a negative correlation with inflation rates. As inflation rates decrease, interest rates on government bonds also tend to decline.

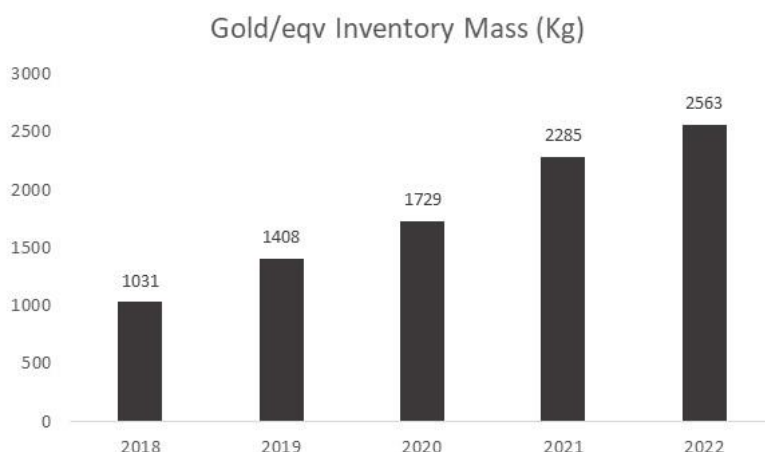
#### A Prominent beneficiary of heightened gold prices

HRTA's innovative business model, which bases profit margins on sales volume rather than sales value, positions the company to reap significant benefits from the surging gold price landscape. The majority of HRTA's gold jewelry sales occur through wholesalers, who compensate the company with gold (often in the form of scrap gold or equivalent) along with a margin.

The rising gold price environment is poised to positively impact HRTA, leading to increased average selling prices (ASP) and revenue, as well as a boost in inventory value that will reflect in higher profit margins.

By the end of 2022, it's estimated that the company holds approximately 2.7 tons of gold inventory, a substantial increase from the estimated 1.0 ton in 2017. This calculation is derived

Fig. 7: Gold/eqv Inventory Mass (Kg)



Source: Hartadinata Abadi, Sucor Sekuritas

## Indonesia Jewellery Industry Outlook

### Developing gold & jewellery business

Indonesia's consumer demand (in tonnes) of bar & coin and jewellery combined may have been stagnant in 2010-2022. However, we see that the gold & jewellery market value has doubled over time (from IDR20.8 tn to IDR45.4 tn). This is mainly driven by the increase in gold price and depreciation of IDR exchange rate relatively to US\$ by 73%. As gold is denominated in dollars, the fluctuation of the dollar value has equivalent impact on the price of gold. Fiat (paper currency) has the propensity to depreciate over time, and if this holds true, gold may continue to rise as investors turn to it as hedge. This will further cement the long-standing belief that gold is a reliable store of wealth in the far future.

Fig. 8: Indonesia consumer demand (tonnes)



Source: World Gold Council, Sucor Sekuritas

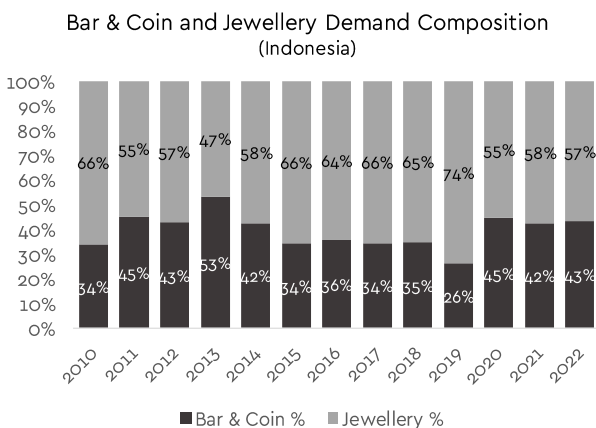
Fig. 9: Indonesia consumer demand (IDR tn)



Source: World Gold Council, Sucor Sekuritas

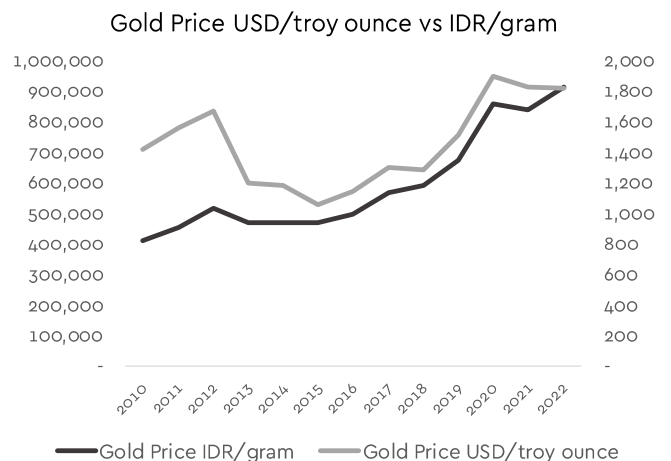
With gold typically being priced in USD, the movement of gold price (per troy ounce) as adjusted to USD is inversely related. In the absence of other factors, a stronger USD pushes gold prices lower, while a weaker USD elevates gold prices due to rising demand. In comparison to USD, the price of gold is more stable in IDR, with a 10-year CAGR of 5.8%. Particularly, in the 2013 timeframe, gold prices in IDR only plummeted by -6.2% while the average international gold price fell by -15.41%. However, in 2014 and 2015, despite a large drop in global gold prices, the value of gold in IDR increased due to a weaker rupiah exchange

Fig. 10: Indonesia bar & coin and jewelry demand composition



Source: World Gold Council, Sucor Sekuritas

Fig. 11: Gold price vs USD/IDR



Source: World Gold Council, Sucor Sekuritas

### Higher GDP capita translates into more gold and jewellery demand

The continuation of HRTA's operational activity is affected by the national economic situation. Particularly, when HRTA operates in an industry whose customers are entirely located in Indonesia, domestic economic conditions strongly dictate spending power.

Indonesia's GDP per capita in rose by 48% from USD3,178 in 2010 to USD4,691 in 2022, and increased purchasing power tend to encourage Indonesians to consume more during periods in which the country's GDP is on the rise. In conjunction with the rising demand for the company's products, the rising spending power of Indonesians will therefore drive company's sales.

### Potential upside on gold demand in Indonesia

In 2022, consumer demand among countries ranked China as the world's biggest gold consumer, followed by India, the Middle East, the United States, and Germany—while Indonesia ranked sixth. According to a research, since the consumers were first permitted to purchase gold in the 1990s—as well as the growing urban population, rapid middle class affluence growth, and rising real incomes—China quickly became the world's largest producer and consumer of gold.

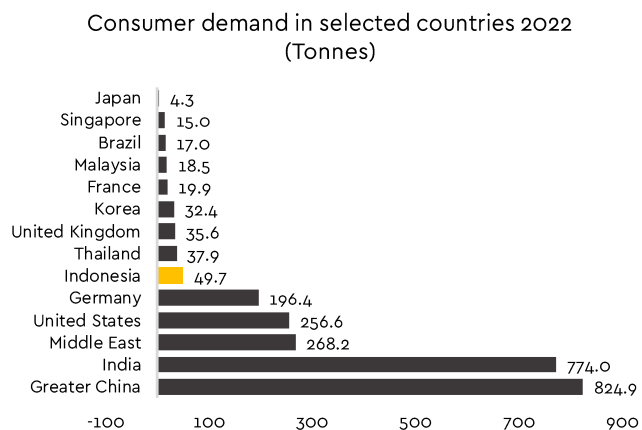
Meanwhile, India was named the second largest jewelry market in the world—particularly gold jewelry which can either be worn or used as investment.

Fig. 12: Indonesia GDP per capita (in USD)



Source: IMF, Sucor Sekuritas

Fig. 13: Consumer demand in selected countries 2022 (tonnes)



Source: World Gold Council, Sucor Sekuritas

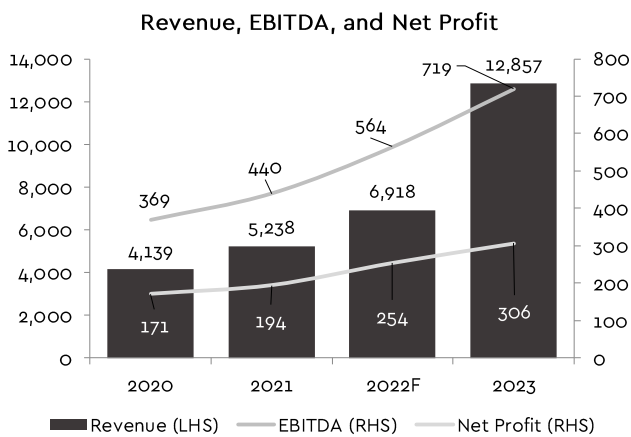
## Financial performance

### Remarkable earnings surge fuelled by escalating volume and revenue expansion

Over the last 3Y (2020 – 2023), HRTA has delivered huge earnings growth by 21.4% CAGR driven by strong revenue growth of 45.9% CAGR over the same period. Continuous recovery in domestic gold jewellery sales volume from improving purchasing power and export, coupled with increasing gold price momentum, has been the driver of this phenomenal expansion in sales volume.

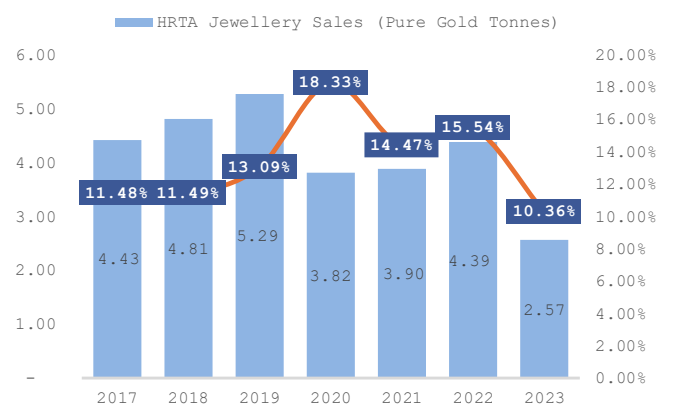
Additionally, the company's consistent retail stores expansions and pawnshop expansion has also helped boost market share.

Fig. 14. HRTA's revenue, EBITDA, and earnings trend (in IDR bn)



Source: IMF, Sucor Sekuritas

Fig. 15: Jewellery sales volume & HRTA's market share

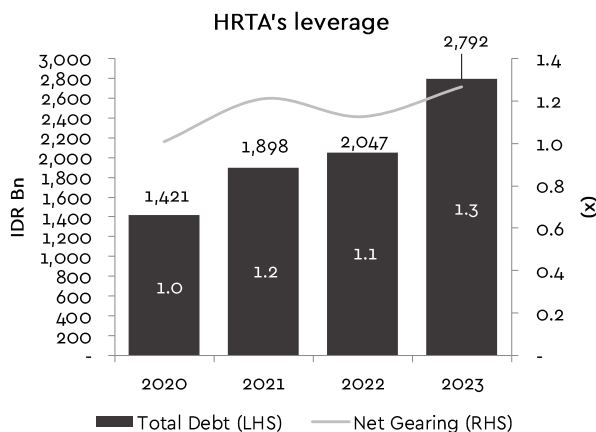


Source: World Gold Council, Sucor Sekuritas

### Improving leverage profile

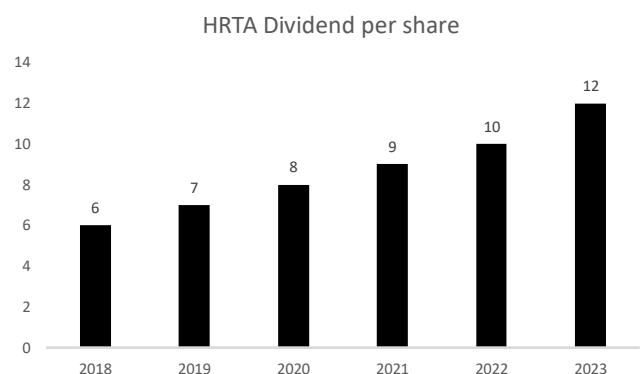
Although HRTA's net gearing has continuously increased to 1.3x in FY23, we believe HRTA has been able to maintain it at a healthy level below bank loan covenants which allow at a maximum of 2.5x.

Fig. 16: HRTA's leverage profile



Source: IMF, Sucor Sekuritas

Fig. 17: HRTA's dividend per share



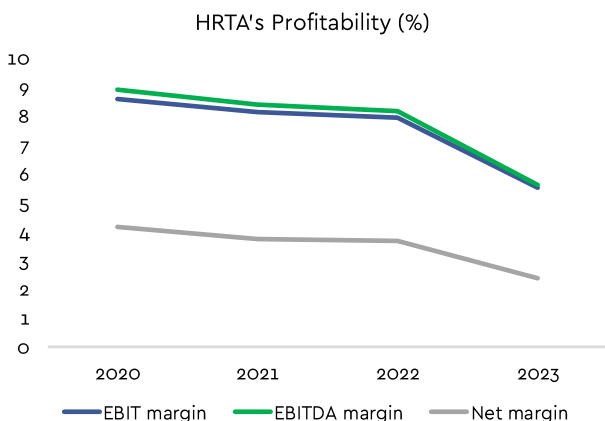
Source: World Gold Council, Sucor Sekuritas



**Margins on a declining trend but expect to improve as export volume decreases**

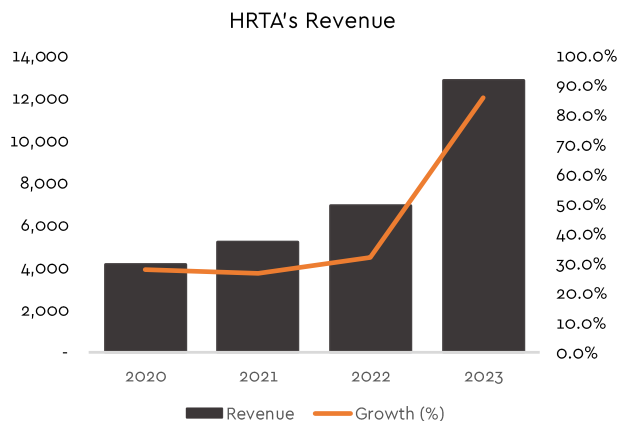
The company has grown its revenue phenomenally through export which has improved cash flow as payments for exports is made through cash not scrap gold , however this has come at the cost of declining overall margins for HRTA. Notably HRTA expects to reduce its portion of exports to maintain overall margins at healthy levels. Note that gross and net margins has reduced by 337 basis points and 129 basis points yoy respectively.

Fig.18 HRTA profitability margins



Source: Company, Sucor Sekuritas

Fig. 19: HRTA's revenue performance

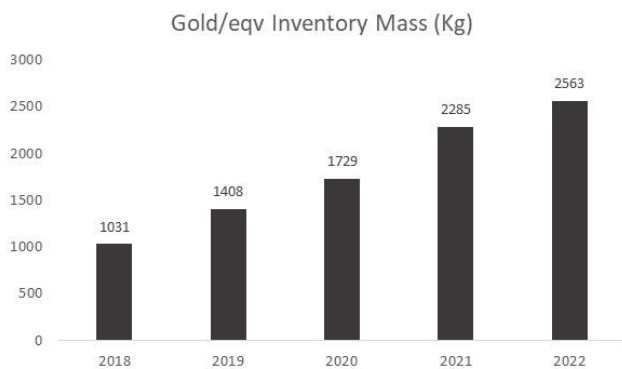


Source: Hartadinata Abadi, Sucor Sekuritas

**Negative Operating Cash Flow is countered by highly liquid gold inventory**

The company has operated often through negative operating cash flows , during their expansion phase as payments are made through scrap gold and not cash when they sell to their domestic wholesalers. However if there is a sudden need for cash, the company believes they can easily liquidate their inventory of gold for sudden needs of cash. As of 2022 , the company owns an estimated 2563kg of gold inventory.

Fig. 20: Gold/Eqv Inventory Mass (Kg)



Source: Hartadinata Abadi, Sucor Sekuritas

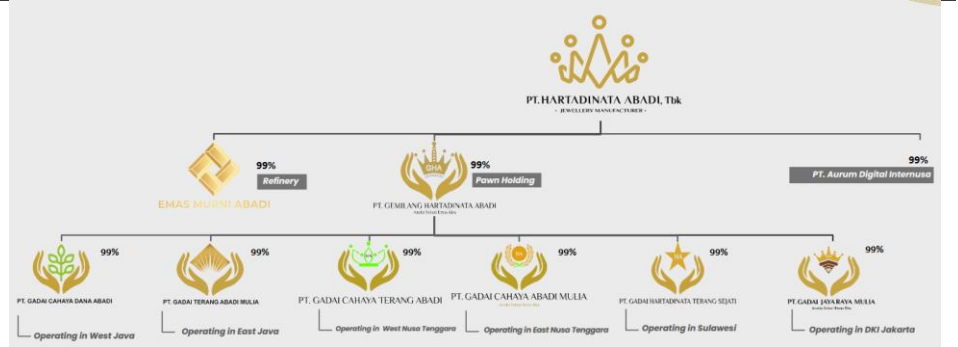
## Company Profile

For nearly two decades, HRTA has been a cornerstone of the Indonesian market, delivering beauty, innovation, and exceptional service through its exquisite jewelry offerings. Operating as an integrated business entity, HRTA leverages its competitive edge through four cutting-edge factories dedicated to crafting high-quality jewelry products. Additionally, the company maintains a comprehensive distribution network that spans the domestic market, encompassing wholesalers, gold shops, franchises, and HRTA's extensive network of proprietary retail stores. This strategic approach ensures HRTA's continued success and prominence within the Indonesian jewelry industry.

HRTA boasts three subsidiaries, each specializing in distinct sectors: PT. Aurum Digital Internusa (Masduit) operates in the digital application field (currently being re-established), PT. Gemilang Hartadinata Abadi specializes in gold pawnshops, and Emas Murni Abadi focuses on refinery operations.

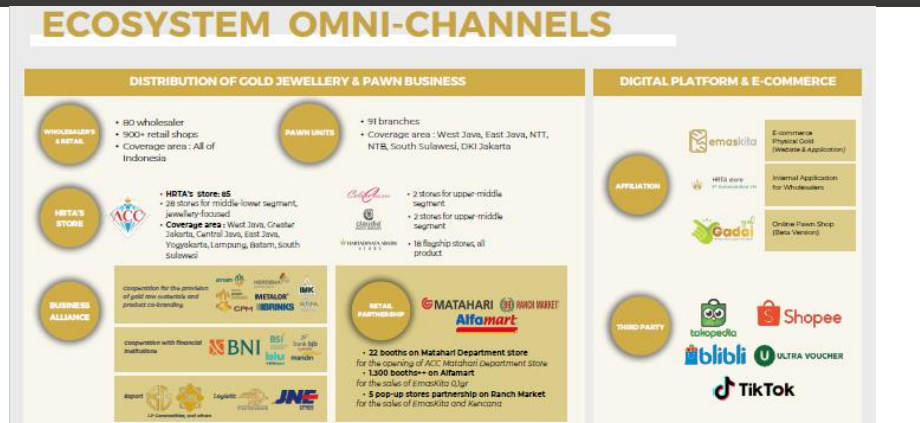
In response to the rapid pace of technological advancement and evolving market dynamics, HRTA is embarking on a comprehensive digital transformation initiative.

Fig. 21: HRTA's Subsidiary



Source: Company, Sucor Sekuritas

Fig. 22: HRTA's omichannel ecosystem



Source: Hartadinata Abadi, Sucor Sekuritas

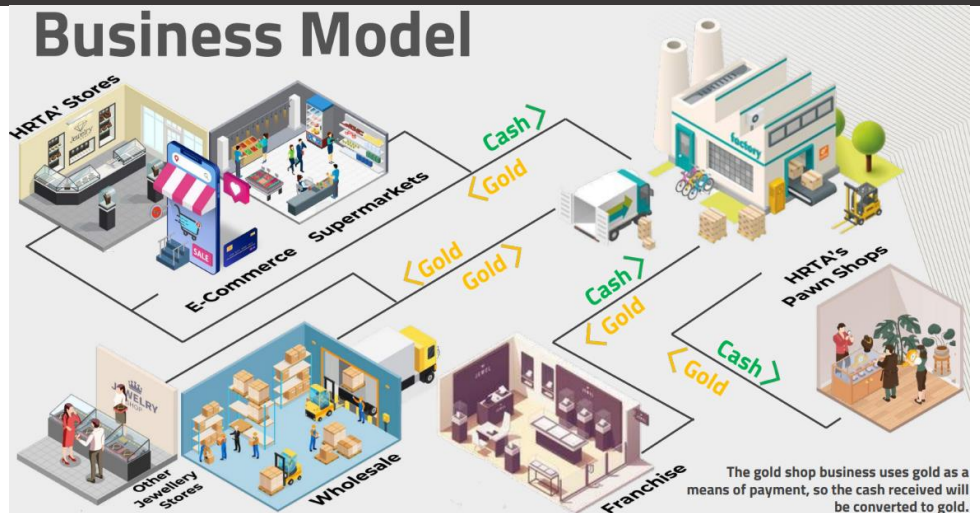
**Business Model**

The company operates four gold casting factories with an annual output capacity of 30 tons each, alongside one gold refinery with a projected 13.5-ton output by 2024. It also owns 85 retail stores and 91 pawn shops across major cities, with a strong distribution network comprising over 80 wholesalers and 900+ independent retail stores nationwide.

Despite a low 55% utilization of its gold casting facilities in 2023, there is significant room for growth with minimal capex requirements in the coming years. The company primarily sells 51% of its gold products to wholesalers, receiving gold and a margin as payments when they sell jewellery and receiving cash as payments when they sell gold bars, while its own jewellery stores contribute around 16% to total sale

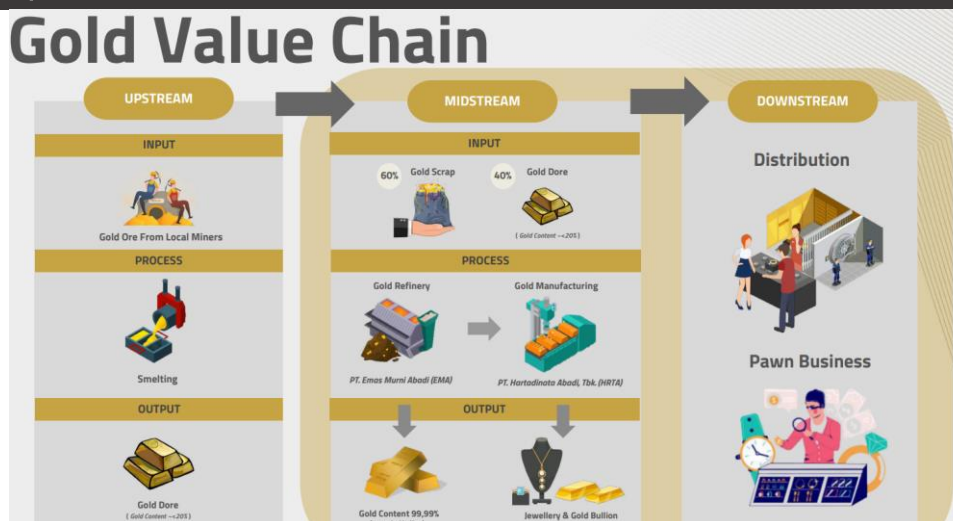
Furthermore, since 2018, HRTA has been expanding its pawnshop business, focusing primarily on gold pawn services with a loan rate ranging from 1.8%-2% per month for debtors.

Fig. 23: HRTA Business Model



Source: Company, Sucor Sekuritas

Fig. 24: Gold Value Chain



Source: Company, Sucor Sekuritas

## Management Profile

Fig. 25: HRTA's Board of Commissioner and Directors

Name		Historical Background
	<p>Ferriyady Hartadinata</p>	<p>Current Position: President Commissioner</p> <ul style="list-style-type: none"> <li>- Obtained a Bachelor's degree in Economics from Bandung Raya University</li> <li>- Has more than 25 years of experience in gold and jewelry industry, having held President Director role in PT Hartadinata since 2004</li> <li>- Is the founder of PT Hartadinata Abadi Tbk, started his 6-year term as president commissioner in 2017</li> </ul>
	<p>Fendy Wijaya</p>	<p>Current Position: Commisioner</p> <ul style="list-style-type: none"> <li>- Obtained a Bachelor's degree in Engineering in Maranatha Chistian University</li> <li>- Has more than 25 years of experience in marketing and operations in various industries, including retail and distribution</li> <li>- Joined PT Hartadinata Abadi Tbk in 2003, started his 6 year term as commissioner in 2017</li> </ul>
	<p>Drs Suprihadi Husman</p>	<p>Current Position: Independent Commissioner</p> <ul style="list-style-type: none"> <li>- Obtained a Master's degree in Management from Bhayangkara Jaya University</li> <li>- Has more than 25 years of experience in Law enforcement</li> <li>- Joined PT Hartadinata Abadi Tbk in 2017, started his 6 year term as independent commissioner in the same year</li> </ul>
	<p>Sandra Sunanto</p>	<p>Current position: President Director</p> <ul style="list-style-type: none"> <li>- Obtained a Doctorate's degree in Management from Erasmus Rotterdam University</li> <li>- Has more than 25 years of experience in business development and market research in various industries, including retail and manufacturing</li> <li>- Joined PT Hartadinata Abadi Tbk in 2014, started his 6 year term as director in 2017</li> </ul>
	<p>Ong Deny</p>	<p>Current Position: Director of Finance</p> <ul style="list-style-type: none"> <li>- Obtained a Bachelor's degree in Accounting from Xavier University, Philippines</li> <li>- Has more than 25 years of experience in corporate finance from various industries including retail at PT Plaza Indonesia Realty Tbk, manufacturing, and property</li> <li>- Joined PT Hartadinata Abadi Tbk in 2016, started his 6 year term as director in 2017</li> </ul>
	<p>Cuncun Muliawan</p>	<ul style="list-style-type: none"> <li>- Current Position: Director of Production &amp; Operation</li> <li>- Obtained a Bachelor's degree in Management from Maranatha Christian University</li> <li>- Has more than 25 years of experience in jewelry marketing</li> <li>- Joined PT Hartadinata Abadi Tbk in 2012, started his 6 year term as Director in 2017</li> </ul>

Source: HRTA, Sucor Sekuritas

## Global Economic Outlook

### Disinflationary trend persists despite higher economic growth projection

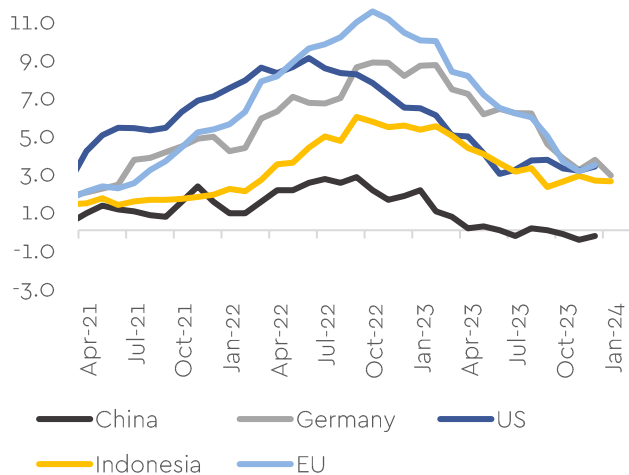
In its January outlook, IMF projected the global economy to grow 3.1% in 2024, up from 2.9% in the earlier projection. Conversely, disinflation trend will continue to persist as the major economies are projected to record a slower growth, as already shown in China and Europe. We expect the disinflationary trend to strengthen in 2024, leading to rate cuts by major central banks.

Specifically, if the Brent oil price stays at around US\$80 - 82/barrel, this could push down the inflation rate in the US to go below 2.0% YoY in 2024, pushing the Fed to implement easy monetary policy. China's slow economic growth signals that the disinflationary trend will strengthen, not to exclude the potential of the deflationary trend to occur.

By the record, many of advanced economies' central banks have been tightening its monetary policy since 2021 at a synchronous manner. However, as the disinflation trend looms, we believe the rate-hike cycle has ended and major central banks would cutting interest rates in 2024. This will lead to a lowering yields of US treasuries in 2024.

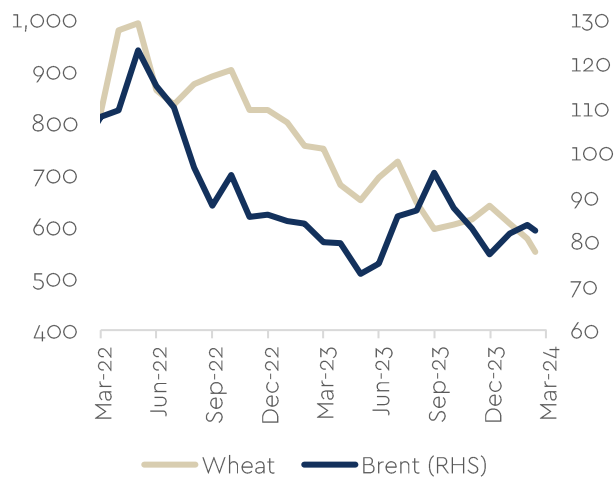
We believe the factors influencing the UST yields to ease further are either the easing inflation rate, which could lead to a FFR cut, or the liquidity crisis which has been posing as a threat to the US economy. Note that the yield spread between 2-Year and 10-Year US Treasuries has been negative. We do not think the US government would want to see another collapse of US banks due to the risk of market to market loss. Hence, we believe the Fed will not maintain the interest rates longer and start cutting it in 2024. Furthermore in 2024, we project that not only an interest rate cut will occur, but also a rise in the Fed's balance sheet to push down the UST yields

Fig. 26: Headline inflation developed & emerging countries



Source: Bloomberg Sucor Sekuritas

Fig. 27: The US treasury outstanding vs 10-years yield



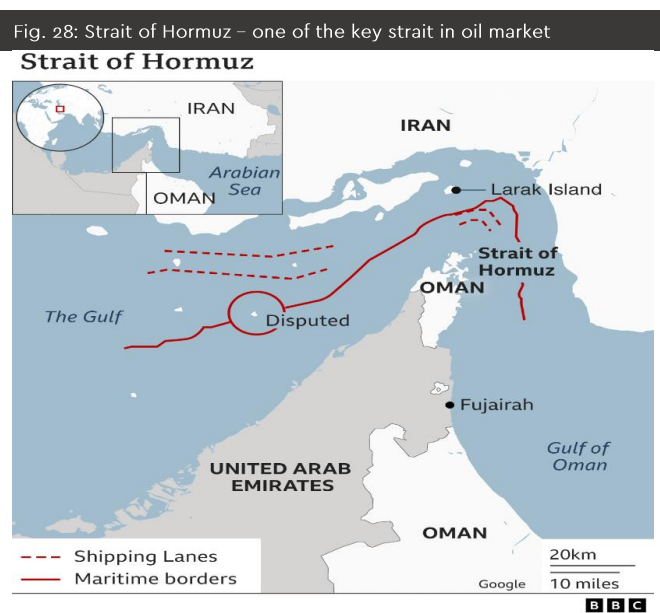
Source: Bloomberg, Sucor Sekuritas

### Geopolitical risk in the Middle East

On the flip side, there is a risk coming from recent rising geopolitical tension in the Middle East, which we believe is the bigger risk for global economy than the US recession. We see that this geopolitical risk is the biggest factor that would divert the trajectory of global inflation rate in 2024.

As exhibited in our literature review report, if the geopolitical tension escalated to a regional war in the Middle East, gold and oil prices might benefit by climbing higher than in the last few years. The rise in oil price would increase the global inflation rate, cancelling the disinflationary pressure. We view that the war in the Middle East involves world's political superpowers, namely Iran, China, and the US. If the geopolitical strain between Iran and Israel strengthened, it could legitimate Iran's move to cut the oil supply which account 30% of global oil supply.

The Hormuz Strait (Fig.28) is vital to the movements of global oil supplies, possess up to 20 – 25mn barrels per day out of total of global oil production at 95mn barrels per day. Not only the Hormuz Strait, just before the end of 2023, a conflict occurred in the Red Sea, where the Houthi attacked several vessels relate to supplies for the Israeli army. This is followed by a surge in SCFI index (Fig. 29) that rose to above 2,000 in Dec-23. If the 30% of global oil supply is held hostage by Iran, the Brent oil price could surge up to US\$150 – 200/barrel. Consequently, the looming inflationary pressure will lead to an alteration of central banks' monetary stance in 2024. The rise of interest rates will move the government securities' yields to surge up higher in 2024.



Source: Google, BBC, Sucor Sekuritas



Source: Bloomberg, Sucor Sekuritas

## Indonesia Economic Outlook

### External performance as a shield from global uncertainty

The gloomy expectations of US and Europe Economic outlook might depress commodity prices and reduce the global exports and imports activities in 2023. We believe that the global economic slowdown might affect Indonesia's net exports to shrink down, apart from the moderating prices of commodities.

However, Indonesia's headline inflation has been declining since 4Q22. The easing core inflation signals that the headline inflation will remain within BI's target range of 3±1% in Nov-Dec. Therefore, we do not see that Bank Indonesia will hike the BI 7-D RRR in that period. We believe Bank Indonesia will implement easy monetary policy, starting in 1Q24 despite its decision to hike the BI 7-D RRR to 6.0% in Oct-23, a move that we consider as a preemptive measure amid fluctuating rupiah exchange rate against US dollar.

Furthermore, Indonesia's economy will remain stable in 2024 despite slowing commodities' prices, hence will reduce the trade surplus. Until Jan-24, Indonesia managed to post a trade surplus for 45<sup>th</sup> consecutive months. However, we project the trade balance to post a slimmer surplus as the economic slowdown in China and Japan seem to be persisting in 2024. Note that the export rate to both countries has surged up higher than previous years. On the economic growth side, domestic consumption will be the pillar to Indonesia's economic growth, as the election spending has boosted the NPISH sector contribution to 4Q23 GDP, growing by 18.1% (yoy), and we expect it to continue in 1Q24.

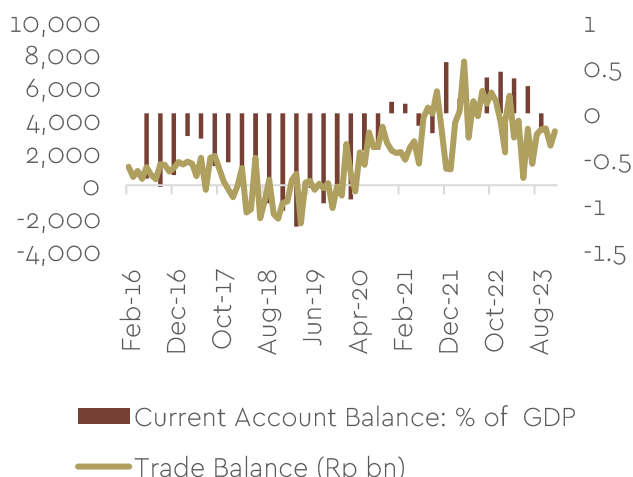
In regard to the impact of geopolitical risk, particularly the rise of oil price, note that Indonesia's oil production is 635,000 barrels per day while the consumption reached 1.5mn barrels per day. This means that more than half of Indonesia's oil consumption is supplied from imported oil. If the geopolitical tension causes the oil prices to surge up to US\$150 – 200/barrel, we expect it could hit the rupiah to depreciate to Rp16,000/US\$. The inflationary pressure will loom and alter BI's plan to ease the monetary policy, which might lead to a capital outflow to safe haven assets.

Fig. 30 GDP growth by components (%)

	4Q23	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22
Real GDP by Expenditure	5.04	4.94	5.17	5.04	5.01	5.73	5.46	5.02
Household Final Consumption Expenditure	4.47	5.05	5.22	4.53	4.5	5.4	5.52	4.35
Final Consumption Expenditure of NPISH	18.11	6.18	8.59	6.16	5.72	5.99	5.03	5.91
Government Final Consumption Expenditure	2.81	-3.93	10.47	3.31	-4.72	-2.5	-4.61	-6.6
Gross Fixed Capital Formation	5.02	5.77	4.63	2.11	3.33	4.98	3.09	4.08
Exports of Goods and Services	1.64	-3.91	-2.91	11.74	14.95	19.09	16.32	14.4
Imports of Goods and Services	-0.15	-6.75	-3.23	4.15	6.49	25.73	13.06	16.06

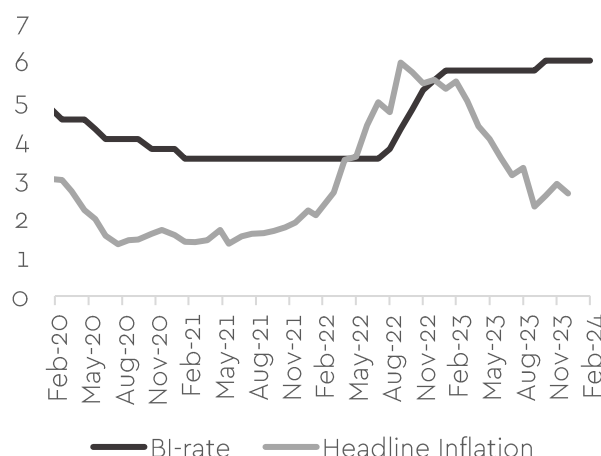
Source: Bloomberg, Sucor Sekuritas

Fig. 31: Trade balance and current account



Source: BPS, BI, Sucor Sekuritas

Fig. 32: Indonesia inflation (%yoy) and BI-Rate



Source: Bank Indonesia, BPS, Sucor Sekuritas

## Summary Financials

Fig. 33: HRTA Key Financial Highlights

Profit & Loss (IDR Bn)					Balance Sheet (IDR Bn)				
	2020	2021	2022	2023		2020	2021	2022	2023
<b>Revenue</b>	4,139	5,238	6,918	12,857	Cash and equivalents	50	62	106	293
Cost of revenue	(3,717)	(4,665)	(6,176)	(11,910)	Trade receivables	941	1,032	805	907
<b>Gross profit</b>	422	573	743	947	Inventories	1,482	1,916	2,340	3,169
G&A Expenses	(53)	(135)	(172)	(216)	Fixed Asset	134	141	204	233
Selling Expenses	(13)	(12)	(23)	(23)	Other assets	223	327	394	428
<b>Operating profit</b>	355	426	548	708	<b>Total Assets</b>	<b>2,831</b>	<b>3,478</b>	<b>3,849</b>	<b>5,029</b>
EBITDA	369	440	564	719	Trade payables	5	7	4	5
Other op. income/exp	1	0	1	(9)	Short-term debt + CMLTD	148	655	833	1,705
Finance income	4	1	2	2	Long-term debt	1,273	1,243	1,214	1,087
Finance expense	(142)	(179)	(225)	(305)	Other liabilities	46	58	75	260
Inc/loss from assoc.	-	-	-	-	<b>Total Liabilities</b>	<b>1,473</b>	<b>1,963</b>	<b>2,127</b>	<b>3,057</b>
<b>Pre-tax profit</b>	218	248	326	396	Minority interest	4	5	5	6
Tax expense	(47)	(54)	(72)	(90)	Paid capital	665	665	665	665
Minority interest	-	-	-	-	Retained earnings	689	847	1,053	1,303
<b>Net income</b>	171	194	254	306	Other equities	0	(1)	(1)	(1)
EPS (IDR)	37	42	55	67	<b>Total Equity</b>	<b>1,358</b>	<b>1,516</b>	<b>1,723</b>	<b>1,973</b>
Cash Flow (IDR Bn)					Key Ratios (%)				
	2020	2021	2022	2023		2020	2021	2022	2023
Net income	171	194	254	306	Revenue growth	27.9	26.6	32.1	85.8
Depreciation & Amort.	13	14	15	14	EBIT growth	38.3	19.8	28.7	29.1
Change in working capital	(831)	(607)	(237)	(974)	EBITDA growth	38.4	19.2	28.3	27.4
<b>Operating Cashflow</b>	<b>(647)</b>	<b>(399)</b>	<b>31</b>	<b>(700)</b>	Net profit growth	14.1	13.6	30.7	20.5
Capex	(49)	(21)	(77)	(48)	Gross margin	10.2	10.9	10.7	7.4
Others	(11)	(3)	(7)	19	EBIT margin	8.6	8.1	7.9	5.5
<b>Investing Cashflow</b>	<b>(61)</b>	<b>(24)</b>	<b>(85)</b>	<b>(29)</b>	EBITDA margin	8.9	8.4	8.2	5.6
Changes in debt	377	475	156	777	Net margin	4.1	3.7	3.7	2.4
Changes in equity	-	0	0	0	ROA	6.0	5.6	6.6	6.1
Dividends paid	(37)	(37)	(46)	(55)	ROE	12.6	12.8	14.8	15.5
Others	(2)	(4)	(13)	(1)	Net gearing (x)	1.0	1.2	1.1	1.3
<b>Financing Cashflow</b>	<b>338</b>	<b>435</b>	<b>97</b>	<b>721</b>	Net debt/EBITDA (x)	3.7	4.2	3.4	3.5
<b>Net Cash Flow</b>	<b>(369)</b>	<b>12</b>	<b>44</b>	<b>(7)</b>	Interest coverage ratio (x)	2.6	2.5	2.5	2.4

Source: Hartadinata Abadi, Sucor Sekuritas



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- Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.
- Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months

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