

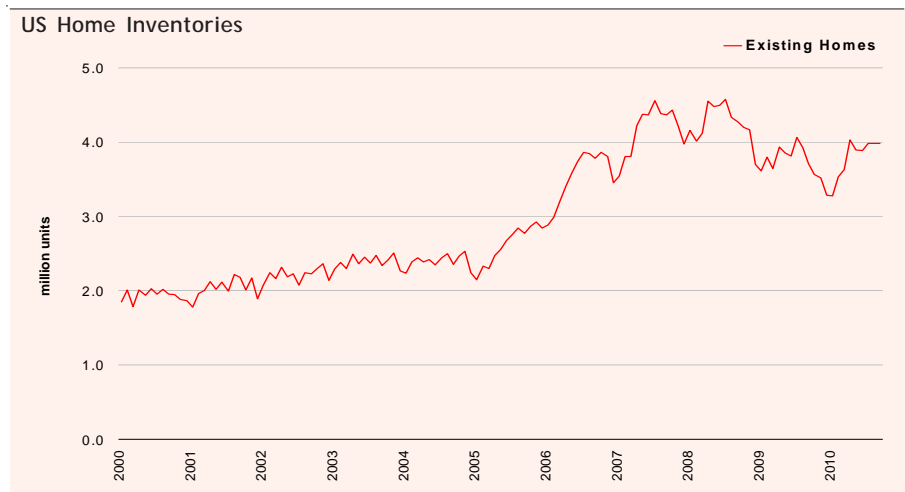
Summary:

- ❑ **US** Housing Weakness
- ❑ **US & UK** 2nd Stimulus
- ❑ **ID** A new Consumer Era

Our base case is till for volatility to heighten in October where September and 3Q10 data will be released and can help blow the final whistle as investors decide on which direction the global economy is going to take on. Watch US housing data this week, and ISM data coming out early next month. Albeit bad economic news, Central Bankers are prepared for Stimulus 2.0, which essentially is market positive in the short term. On the domestic side, Indonesia remains fundamentally strong; however has relatively outperformed regional indices in a big way post crisis. We would be cautious & continue to recommend BUY on Weakness.

US Housing Weakness

Aug existing and new home sales will be released this week. Jul numbers collapsed due to the cut off dates for tax breaks in Jun'10; hence markets have an excuse to ignore lower than crisis low results, which were released in July. The housing numbers are important because inventory levels have gone back to elevated figures again. As such adjusting inventory and sales data, we can estimate that the amount of home inventory has steadily risen, halfway back to 4.0mn units currently, vs. 3.0mn units during post crisis lows, and 4.5mn units during crisis peaks. Existing home inventory was below 2.5mn units between 2000 and 2005, when the US housing has not bubbled yet.



Source: Bloomberg

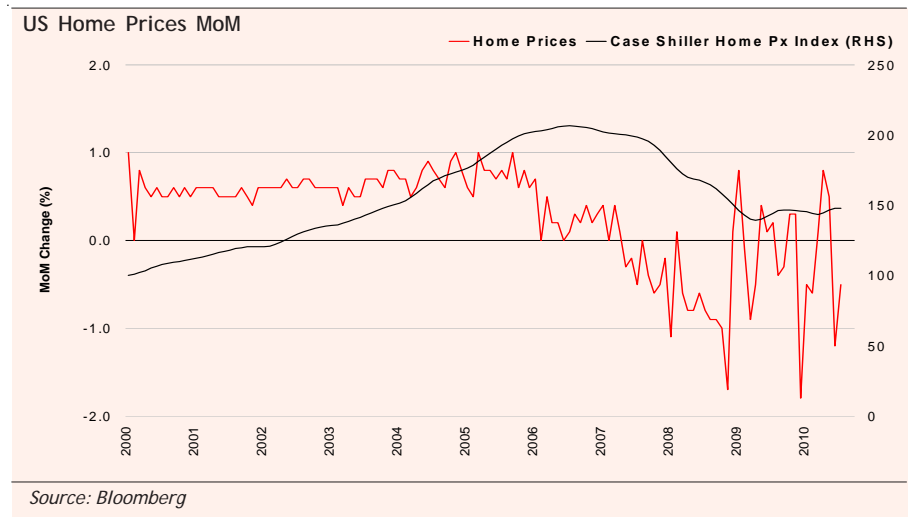
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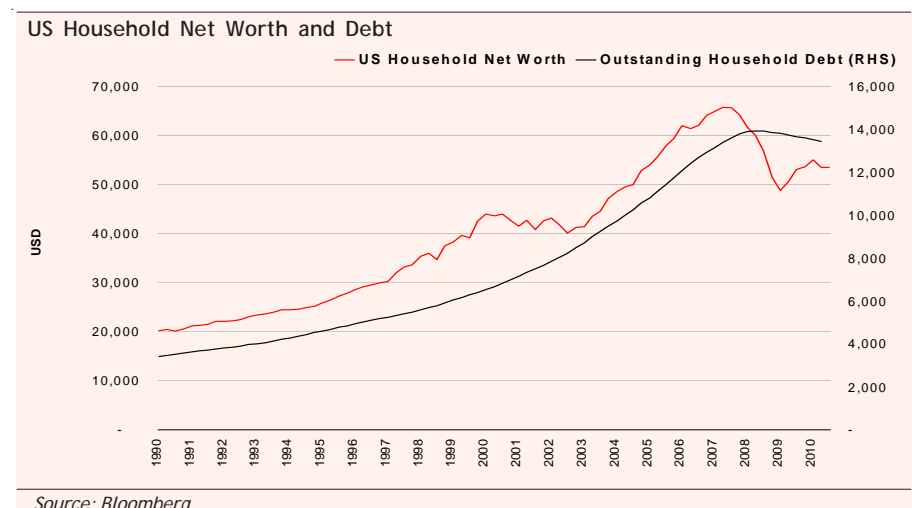
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There is no wonder the market was unexcited with yesterday's "good" housing starts numbers. As such housing starts came in strong for the month of Aug'10, up 10.5% MoM, vs 1.7% MoM in July and expectations of 0.7% MoM. The factor to deeply consider is that Bloomberg reports that there is a sizeable chunk of the existing home inventory are in the hands of investors and banks. Both parties has been supplying the market whenever home prices show signs of recovery, hence keeping home prices checked for the foreseeable future. As such, US housing data has been swinging between 0% MoM growth in since house prices stabilized in 1Q09.



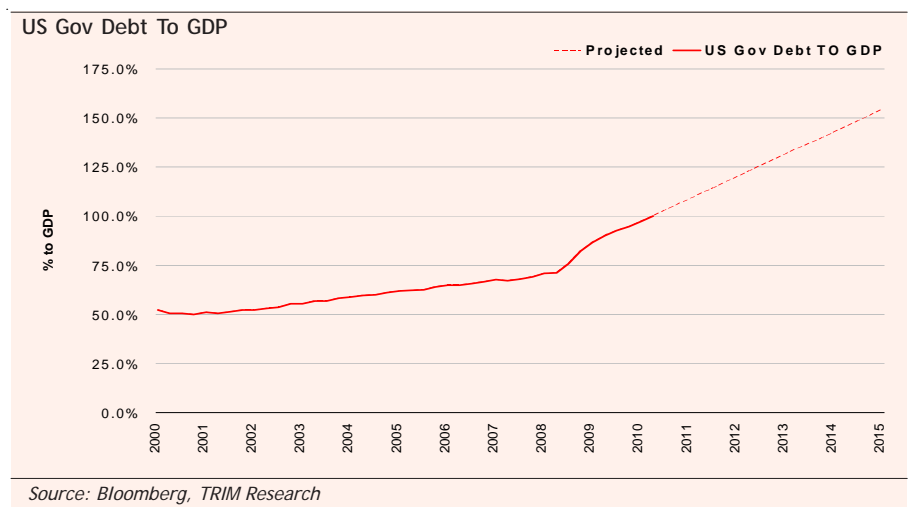
The key risk from such a housing sector the financial institutions right now. Banks are entering a seasonal period where they will sell homes pledged in mortgages they foreclosed earlier during the year. However, the seasonal increase in home supply may pressure on the downside, given the weak demand as serious buyers already brought their homes before Jun to take advantage of tax breaks; such will pressure home prices. This will mean that banks may face provisioning and capital inadequacy issues as homes on their books are marked to lower home prices. This is a ST threat to the US banking system, and a potential trigger event for a global liquidity crunch again. That is why this month sales and inventory levels will be of crucial to watch. Existing home sales figures will be released tonight (23rd Sep'10) and new home sales tomorrow (24th Sep'10)

The other angle is that falling home prices will lead to lower household net worth. As US household net worth declined from USD65.8k in 2Q07 when home prices peaked out, and bottomed out at USD48.8k in 1Q09 during which home prices and S&P500 Index (stock) prices find their respective bottom. Net worth has recovered, however still far from peak, at USD53.5k or almost 20% in value. Also interesting to note is that YR2000 Nasdaq Bubble did not destroy wealth in the same magnitude like the current crisis. The decline in US household wealth has changed consumer behavior and drove consumers into deleveraging mode, and it is still our house view that US consumers will continue to do so. Especially when central bankers share our view that global is slowing and that employment is still slow to pick up.



US, UK 2nd Stimulus

FED and BOE have confirmed their views about slowing recovery in their respective economies. As discussed in my previous Thoughts, the issue to be discussed here is that whether stimulus 2.0 can revive the economy in a convincing way. The view here is that a repeat of stimulus 1.0, as such in the likes of quantitative easing may disappoint longer term investors, because what developed economies need is not cheaper credit. What they need is jobs and productivity growth. However, such moves maybe asset market positive in the short term. As already widely discussed in previous Thoughts, such strategy merely "shifts" the burden of credit re-leveraging in the economy from the deleveraging private sector to leveraging the public sector. This is not LT sustainable and has to change, the excess in government building up debt will one day have to reverse. US government debt to GDP has been building up quickly in the last few years. Projecting current trends means that US government debt is expected to cross 130% to GDP ratio by 2015 - the ratio that got Greece into trouble in 1Q10.



ID A new Consumer Era

With the IPO of ICBP, Indofood's Consumer Branded Product division at 19x 2011 P/E at about Rp5,395/shr, raising as much as Rp6.1tr by selling 1.1% or 20% of the company's enlarged capital, valuing the company at Rp30tr. The IPO priced at 19x 2011 P/E will value ICBP as the second most expensive Indonesian consumer company after UNVR within our consumer stock universe. The market is justifying this valuation because of a limited Indonesian domestic consumer demand exposure available in the market; and that the valuation still prices ICBP at a discount to Chindia peers, which currently trades at an average of 23.8x 2011 P/E. The willingness to compare ICBP with Chindia Peers already reflects the fact that Indonesia is already at a different playing game. That is why our conviction is to continue to invest in the space.

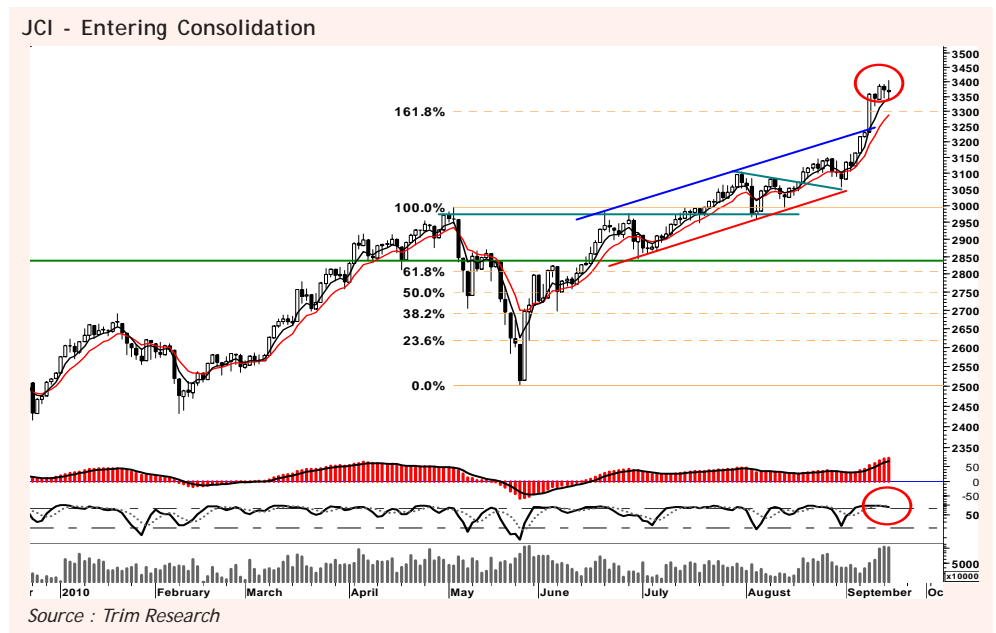
Consumer & Retailer Stock Universe								
	9/23/2010	Last Px (Rp/shr)	M. Cap (Rptr)	YTD (%)	Upside (%)	Bloomberg TP		
						Average	High	Low
GGRM	Cons	44,750	86	107.7	(16)	37,529	46,000	10,800
INDF	Cons	5,750	50	62.0	(11)	5,130	5,900	4,200
KLBF	Cons	2,725	28	109.6	(3)	2,642	2,875	2,300
MYOR	Cons	10,200	8	126.7	(6)	9,583	11,500	8,900
UNVR	Cons	16,700	127	51.1	(8)	15,418	19,250	13,500
	Trim Consumers		300	76.6				
	Regional Consumers			24.8				
ACES	Retailer	2,050	4	35.8	13	2,320	2,500	1,960
RALS	Retailer	900	6	45.2	10	988	1,200	690
MAPI	Retailer	1,480	2	138.7	(3)	1,439	1,920	1,055
	Trim Retailers		12	41.8				

Consumer & Retailer Stock Universe											
	9/23/2010	P/E (x)		P/BV (x)		ROE (%)		EPSg (%)		Div. Y (%)	
		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
GGRM	Cons	21.1	18.3	4.1	3.6	19.4	19.6	18.0	15.5	1.6	2.1
INDF	Cons	20.7	18.5	4.4	3.8	21.1	20.4	17.5	12.0	1.6	1.7
KLBF	Cons	21.6	18.3	5.0	4.1	23.0	22.4	30.0	18.4	0.8	1.2
MYOR	Cons	18.1	14.4	4.1	3.3	22.6	22.9	16.5	25.3	1.0	1.2
UNVR	Cons	34.6	30.1	28.6	24.4	82.7	81.0	20.9	14.9	2.3	2.7
	Trim Consumers	26.8	23.3	14.7	12.5	47.0	46.2	20.2	15.2	1.8	2.2
	Regional Consumers	30.0	23.8	9.4	7.7	31.4	32.5	-	-	2.0	2.0
ACES	Retailer	19.8	16.2	3.5	2.9	17.6	18.0	12.9	22.2	0.5	0.6
RALS	Retailer	16.3	13.4	2.4	2.2	14.5	16.1	16.3	21.7	3.1	3.4
MAPI	Retailer	13.4	10.3	1.7	1.4	12.4	14.0	11.6	29.8	1.0	1.2
	Trim Retailers	16.7	13.6	2.5	2.2	15.0	16.2	14.4	23.5	1.9	2.2

Source: Bloomberg

This IPO also provides investors a reason to look at other consumer stocks in Indonesia. Our consumer specialist highlighted in her notes released yesterday that, consumer peers excluding UNVR trades at an average of 17.4x 2011 PE, albeit a slightly slower 2011 EPSg expectations than ICBP at 15.2%. In her note, she says that retailers are being completely overlooked in this regard. RALS, ACES and MAPI trades at 25% to 70% discount in terms of PEG ratios compared to its larger more liquid consumer siblings, at 0.36x to 0.76x as compared to ex-UNVR consumer average of 1.11x. Retailers are currently trading at an average 2011 P/E of 13.6x, versus consumer average of 23.3 and ex-UNVR average of 17.4x. We like all 3 retailers at the moment for the same reasons why investors like ICBP, and are equally good proxies to Indonesia's domestic demand.

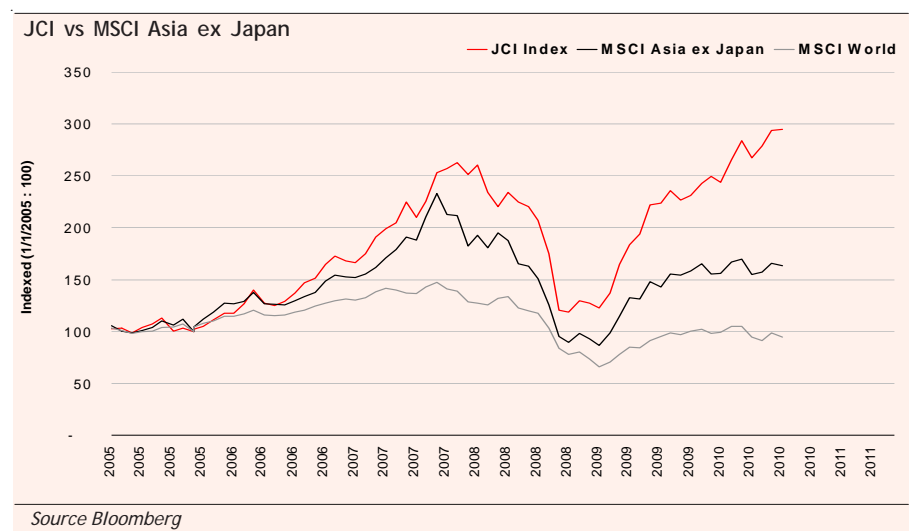
Market Strategy



ST JCI broke its all time high again this week at 3,406 two days ago and has since corrected as investors profit take. Volatility rose 5.4% in the midst of 0.2% JCI rise, signaling a relatively tired and overbought Index, observed from its oscillator stochastic as well as RSI.

Judging from its convincing breakout above 161.8% retracement level, we believe momentum may still Index further, however with a lower probability. Our base case still assumes JCI to enter a period of consolidation from now, and retest its 161.8% resistance turn support before further testing trend support areas at 3250 -3300 in the intermediate term. We continue to recommend short to medium term traders to beware of volatility, and shifts portfolio from outperformed third liners into more conservative fundamental picks. Watch trading supports for banking stocks.

LT Our base case is till for volatility to heighten in October when September and 3Q10 data are released and will decide on which direction the global economy is going to take on. Watch US housing data this week, and ISM data coming out early next month. Despite risks from economic news, Central Bankers are already preparing for Stimulus 2.0, which essentially will support markets at the same time. On the domestic side, Indonesia remains fundamentally strong with inflationary risks. JCI has relatively outperformed regional indices in a big way post crisis. We would be cautious & continue to recommend BUY on Weakness.



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