Indonesia ESG Compendium
22 July 2021

Maybank Kim Eng

POINT OF NO RETURN

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SEE PAGE 78 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Indonesia ESG Compendium

Point of no return

ESG portfolio

ESG is a new trend that will become important and cannot be under-estimated at the macro, corporate and market levels. While ESG is not totally new to the country, we believe some policies need sharpening and better implementation. For this report, we have formed an ESG-friendly portfolio where we incorporate ESG scores, supported by leading ESG Research firm Sustainalytics, in selecting stocks. Our Top Picks are ACES, AKRA, ASII, BBNI, BMRI, CTRA, DMAS, JSMR, MAPI, SMGR, SMRA and UNVR.

No longer "here and there"

We think government ESG policies are decent and are more integrated than before. Policies on carbon emissions look good but we think better policies on waste management are needed. Also, strong policy execution is the key to maximizing the impact on society. We also see policies and performance with regards social aspects (poverty, income distribution, human capital and gender equality) are improving. Corruption perception index is also improving, though we cannot say it is satisfactory.

Corporate level: diverse

While ESG is not something new for Indonesian-listed companies, implementation is quite diverse from one sector to another. We think, on a relative basis, ESG implementation in the automotive, banking and cement sectors is better than others due to supportive regulations, change of event (pandemic), and clear plans to absorb environmentally friendly input materials (cement sector in particular). Meanwhile, resources companies are still fighting to diversify their business to green sectors. Governance practices are satisfactory, though there is room for improvement e.g. female participation remains low at the board level.

Not in the short term: snowball effect

We believe ESG will become important for the market over the medium to long term. The positives are: 1) the market has been adjusting to the changes, as shown by underperformance of environmentally unfriendly sectors; and 2) regulators are also proactive towards the ESG trend. However, over the next 6-9 months we think the market will focus more on the Covid situation (cases and vaccinations) and economic recovery.

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MKE ESG PORTFOLIO

Ticker	Rating	Price*, IDR	TP, IDR	Upside, %	Market cap, USD m	ESG Risk Rating***	Controversy Rating***	PER**, x	PBV**, x	Yield**, %	ROE**, %
ACES	BUY	1,380	1,950	43.3	1,619	Low	No evidence	21.1	4.1	2.0	20.4
AKRA	BUY	3,330	4,700	43.8	914	Medium	No evidence	14.9	1.4	2.7	10.0
ASII	BUY	4,870	8,000	68.0	13,486	Medium	Moderate	10.6	1.2	3.8	11.5
BBNI	BUY	4,900	8,200	69.3	6,251	Medium	Moderate	11.5	0.8	2.0	7.2
BMRI	BUY	5,925	7,875	37.3	18,914	Medium	Moderate	12.4	1.4	4.4	11.5
CTRA	BUY	930	1,400	51.5	1,179	Medium	Moderate	19.9	1.0	1.0	5.3
DMAS	BUY	194	270	50.6	640	Medium	No evidence	8.8	1.4	11.4	17.8
JSMR	BUY	3,720	5,500	48.5	1,847	Low	Low	18.3	1.3	0.7	7.5
MAPI	BUY	650	950	47.1	738	Medium	No evidence	21.6	1.8	1.0	8.9
SMGR	BUY	8,850	14,100	60.6	3,591	Medium	Moderate	19.4	1.4	1.3	7.7
SMRA	BUY	785	1,250	59.4	775	Medium	No evidence	30.4	1.4	0.1	5.1
UNVR	BUY	5,125	9,800	95.2	13,374	Low	No evidence	25.2	39.6	4.0	156.9

* closing price as of 21 July; ** based on 2021 earnings forecast; *** derived from leading external ESG research and data provider Sustainalytics

Source: Bloomberg, Maybank Kim Eng, Sustainalytics

Table of Contents

ESG@MKE

1. No longer "here and there"

ESG implementation at the macro/policy level in Indonesia is not new. They have been implemented since the era of President BJ Habibie (following the downfall of President Soeharto), even though it has been with a more "here-and-there" approach.

We think establishment of the Corruption Eradication Commission (Komisi Pemberantasan Korupsi/KPK) in 2003 under the administration of President Megawati was the first major milestone for ESG practices in the country. Since then, the government has issued policies on labour, income distribution, automotive, energy, environment, and other fronts, which are directly or indirectly supportive of the ESG efforts.

The ESG policies are pretty much in line with President Jokowi's main priorities, famously known as NAWACITA. They include good governance, economic independence, corruption-free law enforcement, revolution of the nation's characters and development of human capital.

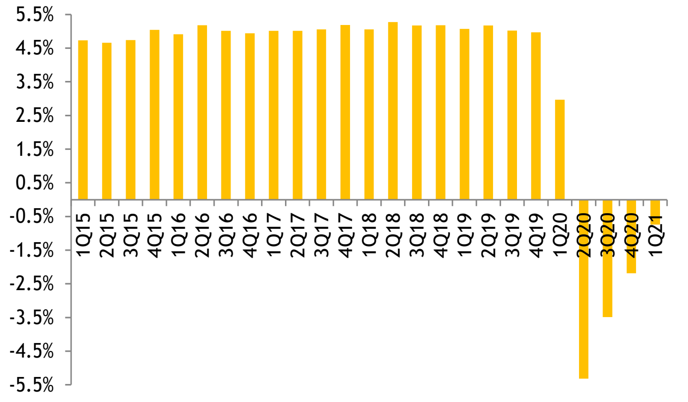
To strengthen the government's commitment to United Nations' Sustainable Development Goals (SDGs), which cover 17 areas (Fig 1), in 2017 President Jokowi issued a regulation (Peraturan Presiden/Perpres No. 59/2017) on implementation of the SDGs. We think the regulation suggests the government's approach to ESG is more integrated than before. The regulation also mentions that sources of funding to support SDGs can come from: 1) the state budget of the central government; 2) the state budget of the regional government; and 3) other official and non-binding sources. The roadmap for SDGs was issued in 2019.

Fig 1: UN's Sustainable Development Goals adopted by Indonesia

Source: United Nations

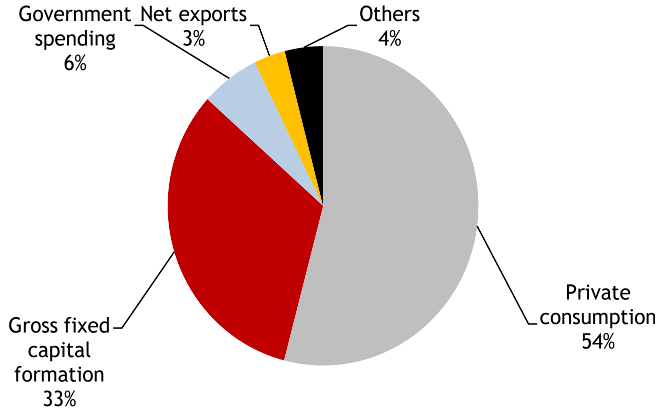
Going forward, we believe ESG-friendly policies are no longer optional for the government. This has become more important for the government, especially given Indonesia's need for major investments to boost economic growth, which was stagnant at c.5% in 2015-19. Note in 1Q21, gross capital formation accounted for 33% of GDP.

Fig 2: Pre-pandemic GDP growth stable at c. 5% p.a.



Source: BPS

Fig 3: Gross capital formation: the second largest GDP contributor in 1Q21

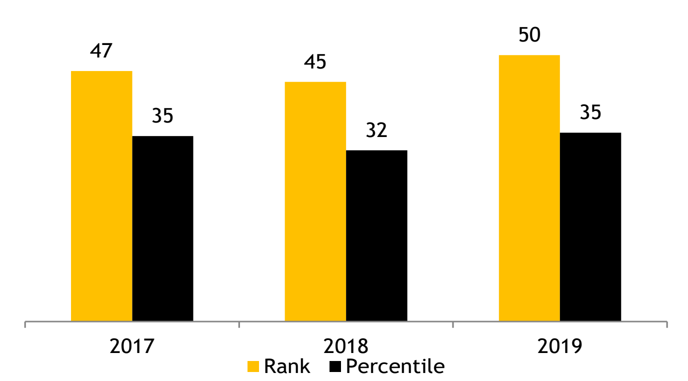


Source: BPS

According to the Global Competitiveness Report 2019 by the World Economic Forum (WEF), Indonesia in 2019 ranked 50 out of 141 countries, equivalent to 35th percentile (note: WEF did not do rankings for 2020). This was lower than in 2018 (ranked 45 and 32nd percentile) and 2017 (ranked 47 and 35th percentile). Compared with other ASEAN countries, Indonesia was still below Singapore (#1), Malaysia (#27) and Thailand (#40), but above Brunei (#56), the Philippines (#64), Vietnam (#67), Cambodia (#106) and Laos (#113).

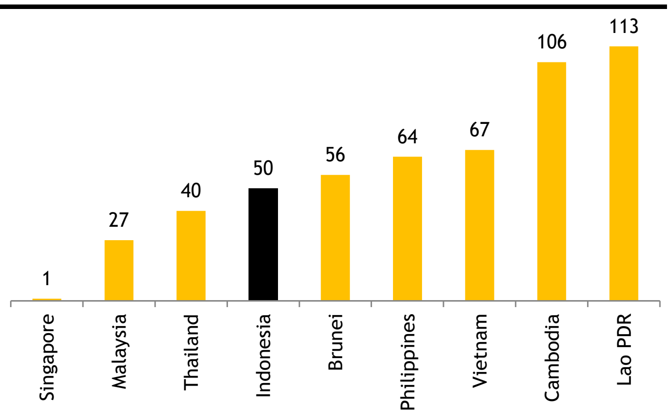
We think the results suggest despite massive infrastructure developments in the country since 2014, there are other variables that foreign investors consider when assessing investment opportunities in Indonesia. While we believe the Omnibus Law will be able to boost investments (refer to our Indonesia Strategy report dated 15 February and titled Waiting for the last jigsaw), we think ESG will become a more important factor going forward.

Fig 4: Indonesia's competitiveness (2017-19)



Source: World Economic Forum

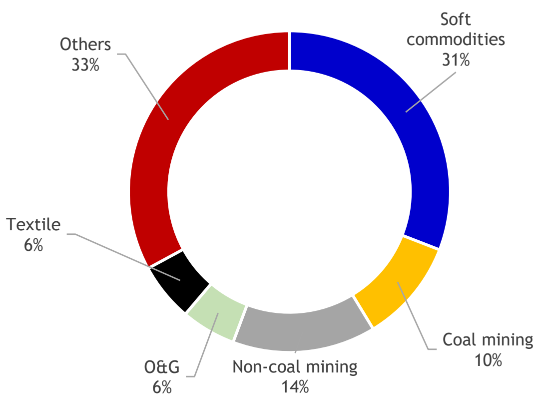
Fig 5: Indonesia vs other ASEAN countries



Source: World Economic Forum

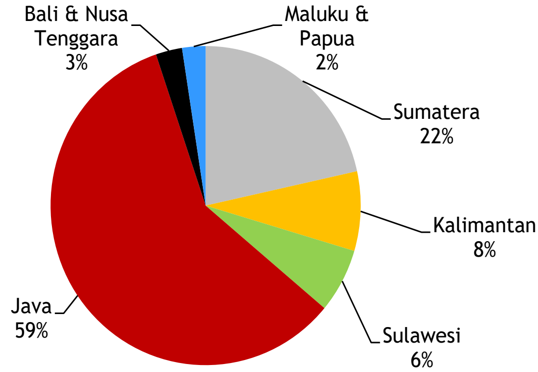
Despite this, we think the ESG-friendly policies issued by the government will be gradual and not radical. The reasons are: 1) the majority of exports [4M21: 61%] are commodities-related; 2) we estimate 20-23% of the economy is contributed by commodities-producing regions; and 3) the majority of energy mix (2020: 38%) is coal based.

Fig 6: 61% of 4M21 exports were commodities based



Source: Bank Indonesia

Fig 7: Breakdown of 1Q21 GDP by regions



Source: BPS

Below are main areas where we think the government has issued ESG-friendly policies. We think the impact of the policies on the country will depend on the implementation. We also note that some areas, such as energy mix and plastic waste, still need strong government support.

1.1. Carbon emission

The government signed and ratified the Paris Agreement in 2016. It targets to lower emission by 26% in 2020 and between 29% (independently) and 41% (in conjunction with the international community) in 2020-30. It also targets to achieve zero carbon emission under different scenarios: in 2045, 2050, 2060 and 2070.

The government estimates the peak of greenhouse gas emission will occur in 2027 if it chooses to achieve net zero emission in 2045 or 2050. Meanwhile, the peak can happen in 2033-34 if the target of zero emission is 2060 or 2070.

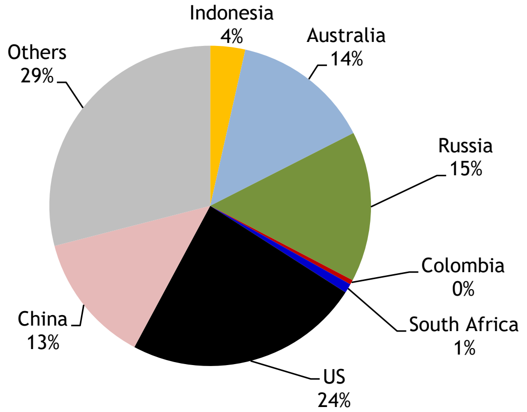
According to the government, the energy and land sectors will contribute a lot to the reduction of emission. The former will be achieved through changing the country's energy mix. Meanwhile, the latter will be achieved by using financial incentives to support reduction of emission, which is also known as the Reducing Emissions from Deforestation and Forest Degradation (REDD) programme.

• Sources of energy

Indonesia has high reliance on fossil fuels as its sources of energy. At the end of 2020, they accounted for 89% (gas 19%, oil 32% and coal 38%) of the country's energy mix. The high reliance on coal is understandable not only because it is cheaper, but also because it is abundantly available and easy to transport.

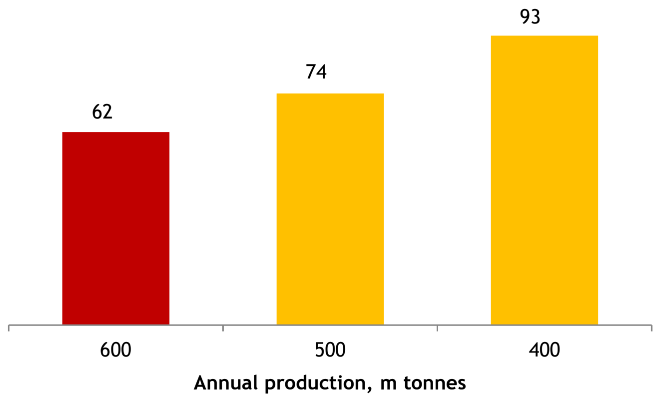
According to BP, Indonesia has c.37b tonnes of coal reserves, which account for 4% of global coal reserves. Assuming annual coal production of 600m tonnes, we estimate the reserves can last for 62 years.

Fig 8: Distribution of global coal reserves



Source: BP

Fig 9: Current coal reserves can last for 62 years

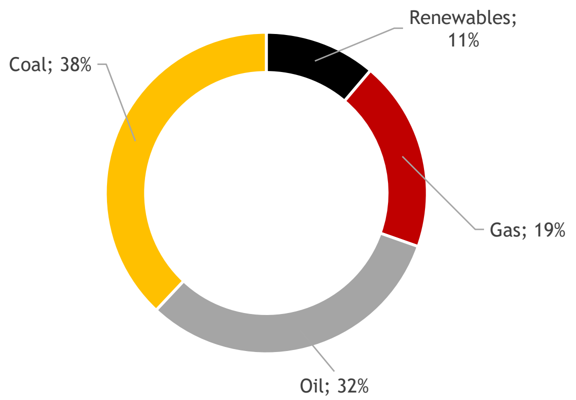


Source: Maybank Kim Eng

The government has a target to increase the portion for renewable energy to 23% of the energy mix in 2025 from 11% in 2020. We think the target will very much depend on the tariffs of electricity generated from renewable energy. We understand the government is working on the electricity tariff scheme for renewable energy and we expect it to announce the tariffs this year.

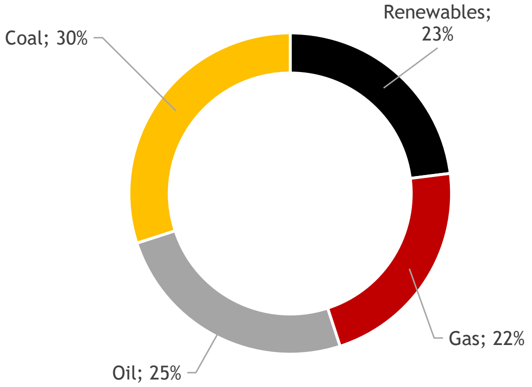
Our observation suggests it is possible for the tariffs to be different from one case to another. They include: 1) feed-in tariff where the tariff is fixed in the range of USDc8.5-10.5 per kWh depending on power capacity; 2) ceiling price of USDc6.5-8 per kWh depending on capacity; and 3) negotiated price.

Fig 10: Energy mix: 2020



Source: PLN

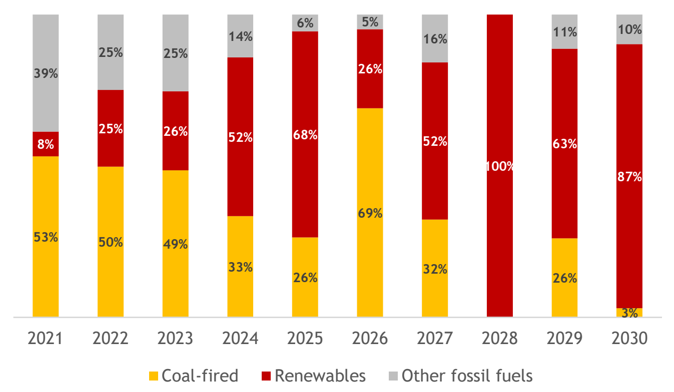
Fig 11: Energy mix: 2025



Source: PLN

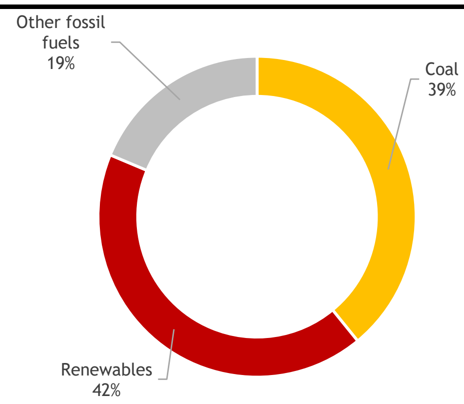
To support the transition to renewable energy, the government has decided to stop construction of new coal-fired power plants post-2030. From 2021-30, out of new power plant capacity of 40.904MW, renewable energy will have the largest share (42%), followed by coal (39%) and other fossil fuels (19%).

Fig 12: Construction of new power plants 2021-30: coal-based portion will decline



Source: PLN, Maybank Kim Eng

Fig 13: Most of the new power plants (2021-30): will be renewable based



Source: PLN, Maybank Kim Eng

Recently the government issued directions for fiscal policies for 2022 where it intends to impose carbon tax on either carbon emission or sources of the emissions (refer to our Indonesia Strategy report dated 31 May, titled Directions of fiscal policies). The structure and timing of the carbon tax remain unclear at this stage. It is likely the government will impose the tax not only on the supply but also on the demand side.

Our observation suggests the carbon tax will be around IDR75/kg of CO_2e, which is in line with those in other counties, such as Japan, Singapore, France and Chile, which are in the range of USD3-49/tonne of CO_2e. The carbon tax policy will impact the following sectors: cement, coal, oil & gas, petrochemical, power, and pulp & paper.

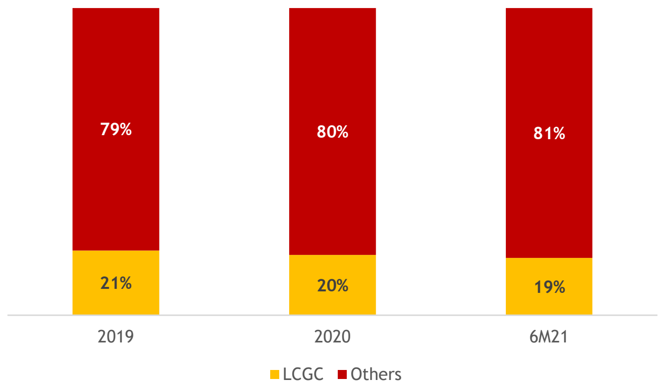
We think it is possible for the government to establish carbon tax trading to support the policy. This way, carbon tax obligation of a company can be offset with carbon credited generated by another company that it purchases from.

• Carbon emission in automotive sector

The government has also issued emission policies in the automotive sector. In 2013, it issued a regulation that provided tax support (0% tax on sales of luxury goods/Pajak Penjualan Barang Mewah/PPnBM) for low-cost green cars (LCGC). The tax support will expire in October 2021, and as such, LCGCs will be subject to 3% PPnBM. The tax support, leading to cheaper prices, has placed LCGC's as one of the best selling cars in Indonesia, accounting for c.20% of total industry volume.

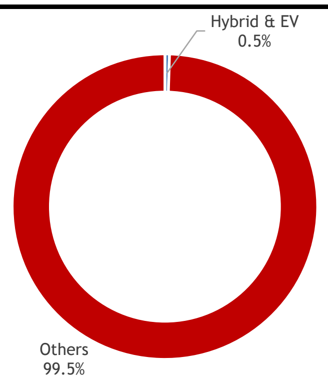
To promote emission efficiency in the automotive sector, starting October, the new regulation on PPnBM rate will apply where the rate will be based on the vehicle's CO2 emission and no longer based on the engine size. For vehicles with less than 10-passenger capacity, the PPnBM rate, depending on emission, is between 15% and 70%. The new regulation is also supportive of the development of hybrid and electric vehicles (EV) where the PPnBM tariff is set at 10-15%. Note sales volume of hybrid and electric vehicles are tiny to total industry volume (6M21: 0.5%).

Fig 14: LCGCs account for c.20% of industry volume



Source: Gaikindo

Fig 15: Electricity cars make up only a tiny portion of cars on the road (6M21)



Source: Gaikindo, Maybank Kim Eng

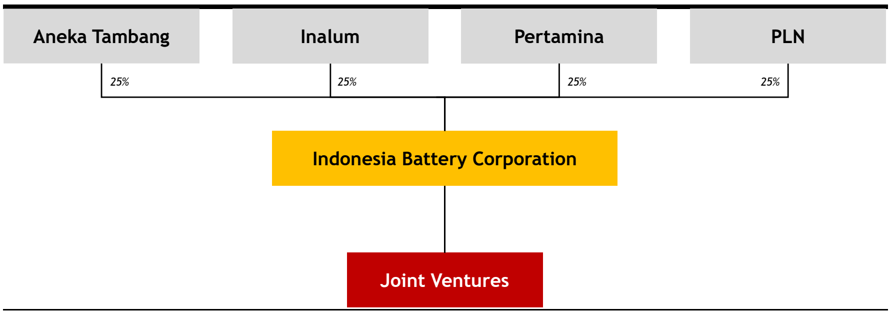
The government has set several targets for production of electricity-based cars and motorcycles. Note that electricity-based cars include not only EVs but also hybrids. The targets are: 1) in 2025 production of electricity-based cars and motorcycles to reach 2m units (cars: 400K; motorcycles: 1.76m), equivalent to 20% of targeted national production; and 2) in 2030 production will increase to 3.05m units (cars: 600k; motorcycles: 2.45m).

To support the aforementioned targets, the government has provided several incentives for both customers and producers. For customers, the incentives are: 1) 0% PPnBM; 2) 0% down payment; and 3) free installation of additional electric power for EVs and 75% discount for electric motorcycles. Meanwhile, the incentives for producers include: 1) tax holiday; 2) tax allowance; 3) zero import duty; and 4) tax deduction and investment allowances.

In relation to the development of the EV sector, the government also plans to develop the battery industry. For this purpose, an entity called Indonesia Battery Corporation (IBC) has been established. IBC has four shareholders (all SOE), which all own an equal stake (25%) in the company. The shareholders are Perusahaan Listrik Negara (PLN), Pertamina, Inalum and Aneka Tambang.

We understand that under the IBC there will be various joint ventures that will cover three main pillars: mining, battery production and charging stations. We estimate total investments will be over USD20b. The government targets in 2030 production capacity will reach 140GWh, 36% of which (50GWh) will be for export markets. Several companies have been approached to support the project, including – among others – CATL of China and LG of Korea.

Fig 16: Structure of IBC

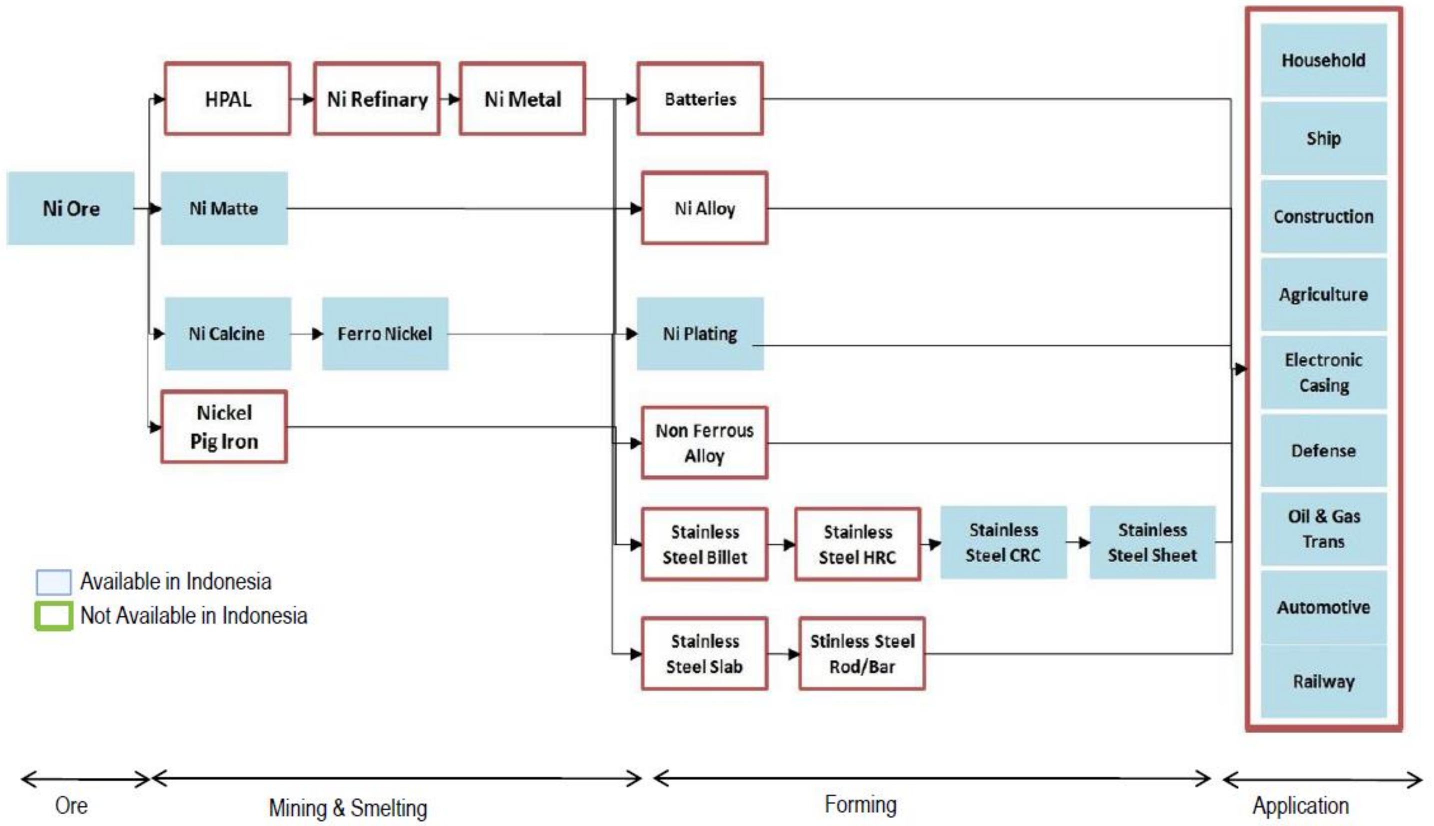


Source: Company

Development of battery products are also a part of the government's efforts to continuously create value add from the mining sector. Note since 2014, the government has banned exports of mineral ores, including nickel ores. The decision has been positive for exports as the proportion of exports of refined nickel to total exports continue to increase. In 2020 the proportion was 3.4%, up from 2.4% in 2019 and c. 1% in 2015-18.

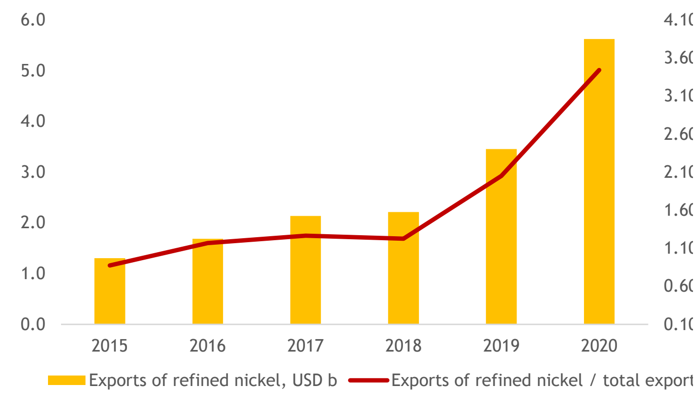
We estimate the value of exports of refined nickel and batteries, once at full capacity, will reach over USD10b p.a. This is enough to turn the trade deficit into a surplus, and as such will reduce the market's concerns about Indonesia's reliance on external financing.

Fig 17: Indonesia is at the early stage of the nickel value-added process



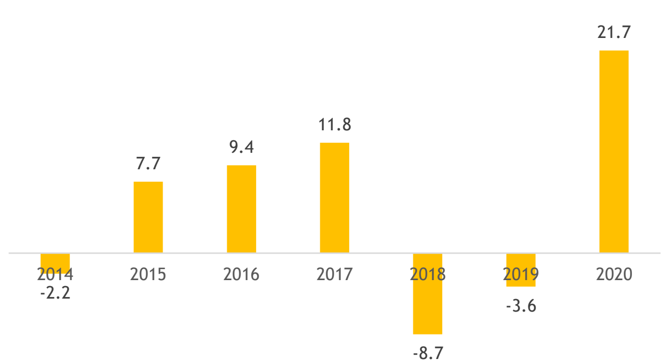
Source: Ministry of Industry

Fig 18: Increase in exports of refined nickel



Source: Bank Indonesia, BPS, Maybank Kim Eng

Fig 19: Indonesia's trade balance (USD b)



Source: Bloomberg

- ### Deforestation

According to the government, Indonesia has lost c. 25% of its forest area due to change of forest use to industrialization. In 2016-17, Sumatera and Kalimantan islands had lost 51% and 68% of their forest areas. While the reduction of forest area looks unavoidable in the future, the government targets the proportion of forest area to total land area to reach 40% (business as usual scenario) and 45.5% (with government intervention) in 2030. The government also aims to either maintain the current ratio of degraded forest area to total forest area at 38% (business-as-usual scenario) or lower it to 16% (with government intervention).

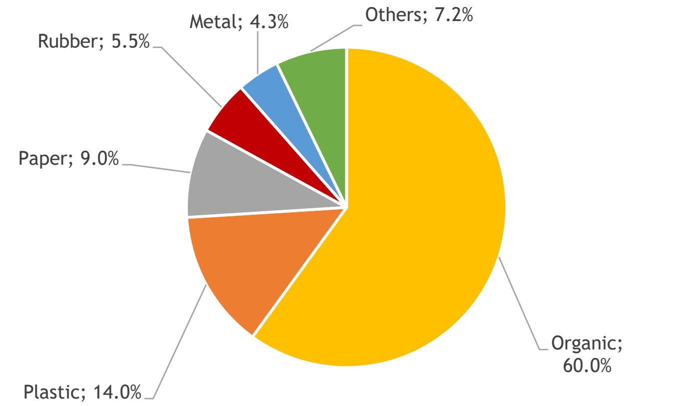
Fig 20: Policy direction and strategies for deforestation (2020-30)

Source: Bappenas, SDGs Indonesia

1.2. Plastic waste

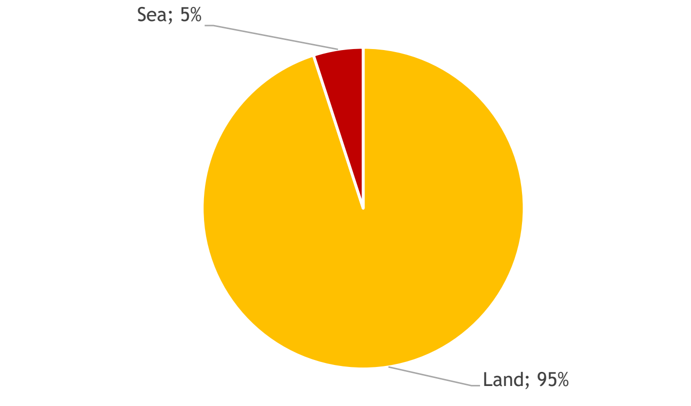
Waste is a big issue in Indonesia. Last year, the country produced c.68m tonnes of waste, up 3% CAGR (2018-20). According to the Ministry of Environment and Forestry, most of the waste is organic waste (60%), followed by plastic (14%), paper (9%), rubber (5.5%), metal (4.3%) and others (7.2%). We estimate among the plastic waste, most (95%) is dumped onto the land and 5% into the sea.

Fig 21: Types of waste



Source: Ministry of Environment and Forestry

Fig 22: Dumping destination of waste



Source: Maybank Kim Eng

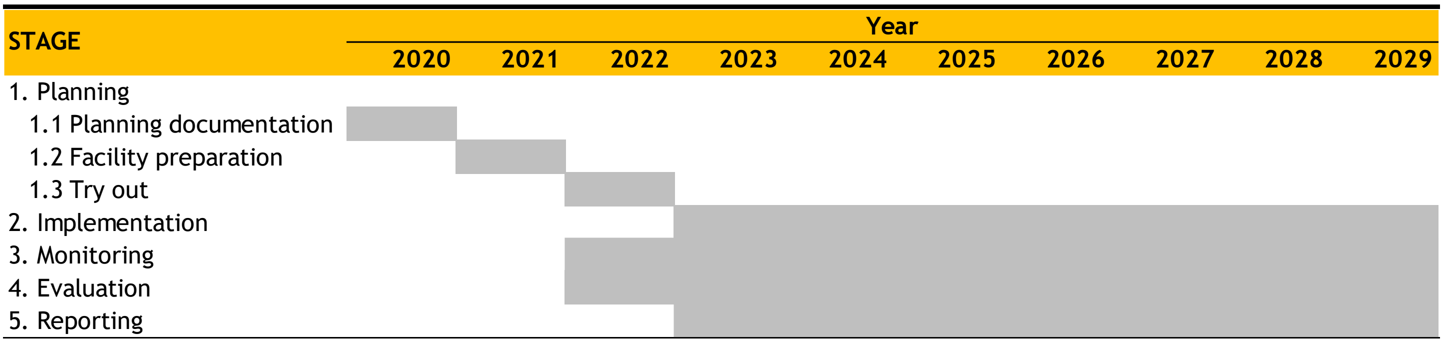
We understand the government has issued several regulations on waste management.

- In 2018 President Jokowi issued a regulation, Peraturan Presiden (Perpres) no. 83/2018 on management of sea waste.

- The government also has committed to significantly reduce consumption of single-use plastic bags by 2030 even though there are no specific targets.

- In 2019, the Ministry of Environment and Forestry issued a regulation (Permen P.75/MENLHK/SETJEN/KUM.1/10/2019) on the road map for waste reduction by producers for 2020-2029. The road map targets waste by producers to decline by 30% in 2029. Fig 23 highlights steps for the road map. The producers defined in the regulation are those in the : 1) manufacturing (F&B, consumer goods, and beauty & personal care), 2) F&B services; and 3) retail sectors.

Fig 23: Road map to reduce waste by producers



Source: Ministry of Environment and Forestry

To further show its commitment to reduce consumption of plastics, the government plans to impose an excise tax on plastics. There are no details on the regulation in terms of the timeline and tariffs, etc. But according to the government, approval from parliament was already obtained in 2019. The excise tax will be negative to the earnings of consumer companies as packaging accounts for 10% of costs. While it is possible for the consumer companies to pass on the excise tax to consumers, we do not think they can fully pass on the cost increase given weak purchasing power.

Despite the commitment at the policy level, implementation is still not satisfactory in our view. While the ban of single-use plastic bags has been applied, the regulation only applies in two provinces and 39 cities. Moreover, the regulation only applies to malls, shopping centres and supermarkets. Plastic bags are still being used in traditional markets, small shops, and online transactions. Plastic straws are also still used in most parts of the country. Bali province is perhaps the only exception as the regional government has banned the usage of plastic bags, styrofoam and plastic straws since 2019.

1.3. Corruption

We think Indonesia has made good progress to eradicate corruption. The country's Corruption Perception Index score, issued by Transparency International, has been on an upward trend since 2002. The score was only 19 out of 100 in 2002, but it rose to 37 in 2020. However, despite the improving index trend, Indonesia still ranks only 102 out of 180 countries. Among ASEAN countries, Indonesia is below Singapore (3), Brunei (35) and Malaysia (57), but above Thailand (104), Vietnam (104), the Philippines (115), Laos (134), Myanmar (137) and Cambodia (160).

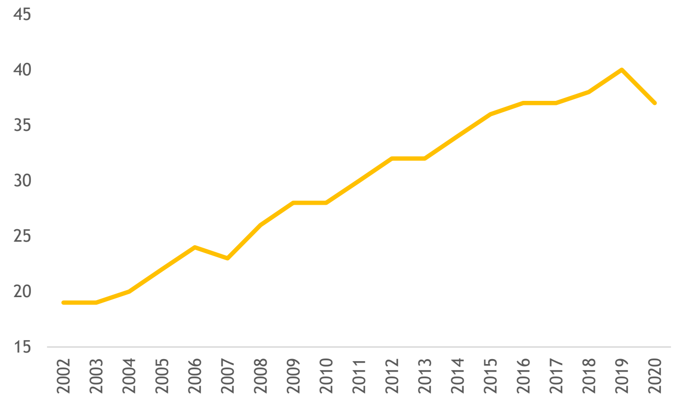
We attribute the positive developments to the following factors:

- The establishment of the **Corruption Eradication Commission** (Komisi Pemberantasan Korupsi/KPK) in 2003 under the administration of President Megawati. The role of KPK in eradicating corruption cannot be underestimated. We think it not only saves state's wealth, but also helps socializing anti-corruption culture among high-ranking government officers. From 2004 to 2020, KPK had arrested 274 parliament members, 28 chiefs of institutions/ministries and 143 regional heads. KPK has also improved transparency of information on public officers' wealth. As of end of March 2021, 94.2% of public officers had submitted their mandatory wealth reports to KPK.

- **Electronic process** in several public services, such as submission of annual tax return. Since 2009, the Tax Office has only accepted electronic submissions. We think this is positive on at least two fronts: improving the Tax Office's administration and avoiding direct contact between tax payer and tax officer, which could lead to corruption.

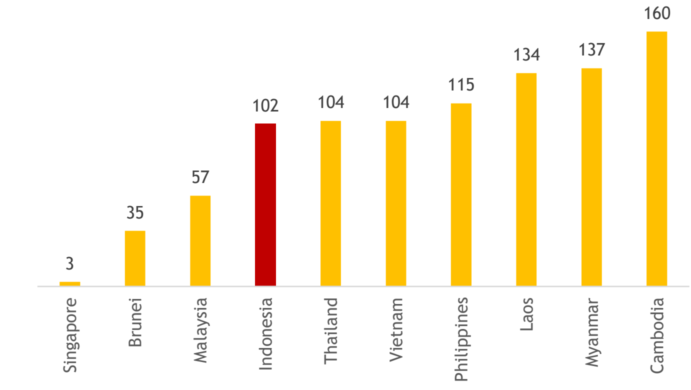
- **Convenience** in accessing public services, such as renewal of driving licence and passport. Unlike in the past, now one can renew his/her driving licence in any police and immigration offices. This has not only improved services to the public, but has also effectively eradicated corruption. It was public knowledge that, for some reason, people living in certain areas/cities were subject to extortion when they renewed their driving licences and passports. But under the current system, they can now choose any office they feel comfortable with.

Fig 24: Indonesia's improving Corruption Perception Index score



Source: Transparency International

Fig 25: Indonesia' 2020 Corruption Perception Index rank*: not the best in ASEAN



* out of 180 countries

Source: Transparency International

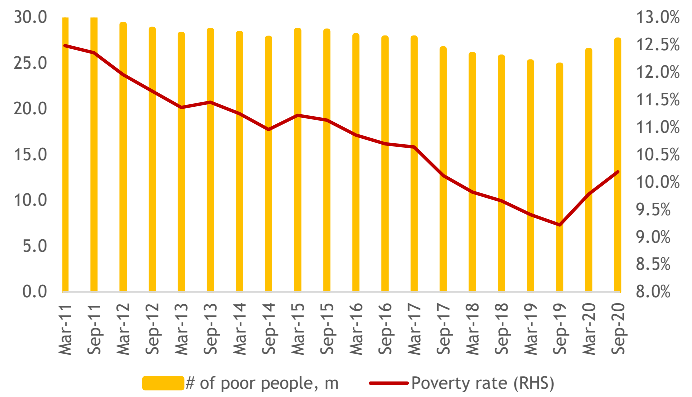
1.4. Income distribution

We think before the pandemic started at the beginning of 2020 Indonesia had made decent progress on the income distribution front. The number of poor people dropped 17% to 24.8m at the end of September 2019 from 30m at the end of Mach 2011. During the same period, the poverty rate also declined, to 9.2% from 12.5%.

In terms of poverty distribution, at the end of September 2020, 44% of poverty was in urban areas and 56% in rural areas. The proportion was different from the end of March 2011, even though most of the poverty was still in rural areas (37% in urban and 63% in rural areas).

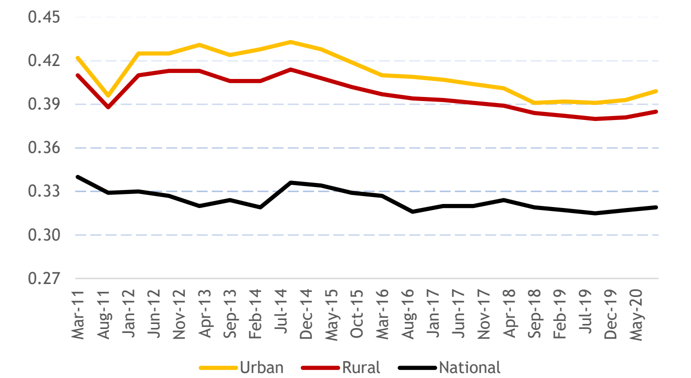
The country's Gini coefficient, which measures the degree of inequality in income distribution, also improved, to 0.319 from 0.34. The improvement occurred in both urban and rural areas. The urban Gini coefficient improved to 0.391 from 0.422, while the rural one improved to 0.38 from 0.41. The government targets to reach a Gini coefficient ratio of 0.379 (business-as-usual scenario) or 0.363 with government intervention in 2030.

Fig 26: Decline in poverty



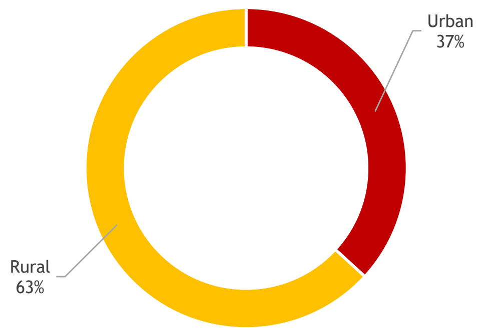
Source: BPS

Fig 27: Slight improvement in Indonesia's Gini coefficient ratio



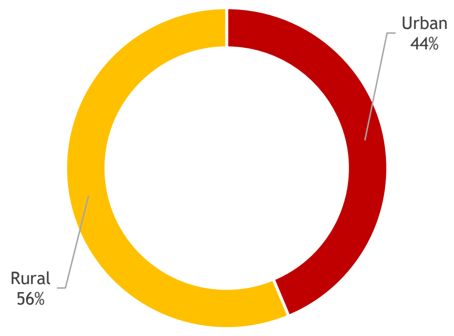
Source: BPS

Fig 28: Poverty distribution (end of March 2011)



Source: BPS

Fig 29: Poverty distribution (end of September 2020)



Source: BPS

The government targets to reduce the poverty rate to 5.73% under the business-as-usual scenario or to 4-4.5% with government intervention. The policy is directed not only at reducing the number of poor people, but also to ensure that people do not fall into poverty again.

The policy will be implemented at both the macro and micro levels. The macro strategy includes macroeconomic stability (growth and inflation management, in particular food pricing). Meanwhile, the micro strategy covers enhancement of social protection programmes and a productive economy. Fig 30 highlights the government's policy directions and strategies to reduce poverty in 2020-30.

Fig 30: Policy directions and strategies to lower poverty

		High quality social protection and basic services	Strengthening the synergy of governance and institutions	Sustainable economic empowerment for society
Policy Direction 2020-2024	Strategies	• Stabilization of comprehensive and adequate social security for the poor and vulnerable. • Integration of well-targeted subsidy and social assistance that increases the financial inclusion. • Improvement of basic services quality through a reliable and responsive minimum standard services management.	• Strengthening Regional Coordination Team to accelerate poverty alleviation and SDGs achivement. • Stabilization of Integrated Database management that is conected to population and JKN (National Health Insurance) database. • Development of data system and one-door service for regional and national programs' synergy in poverty eradication. • Increasing regional government capacity in analysis, planning, and budgeting to accelerate poverty alleviation.	• Promoting collaboration in family economic improvement through training, assisting, counselling, and mentoring. • Enhancing productive assets for the poor and vulnerable through provision of access to land ownership and management (social debt and Agraria Reform) • Appropriate technology utilization and innovation to increase value added of community's productive business. • Development of social entrepeneurs to eradicate social economic issues.
		High quality social protection and basic services	**Strengthening the synergy of governance and institutions**	**Sustainable economic empowerment for society**
Policy Direction 2025-2030	Strategies	• Stabilization of social assistance that is integrated with financial inclusion, especially for the poor and vulnerable. • Development of technology-based innovation in basic services in all Indonesia. • Synergy and cooperation among stakeholders (government, private sector, NGOs) in improving quality of basic services.	• Promoting regional government innovation in accelerating poverty alleviation. • Development of replication strategy in difficult regions to promote poverty alleviation.	• Enhancing capacity for the vulnerable and middle-class through trainings, business assistance, and mentoring. • Ensuring capital and market for local economic entrepeneurs. • Technology utilization and innovation to enhance productive business. • Creating harmonic business climate supported by the equal and fair policy.

Source: Bappenas, SDGs Indonesia

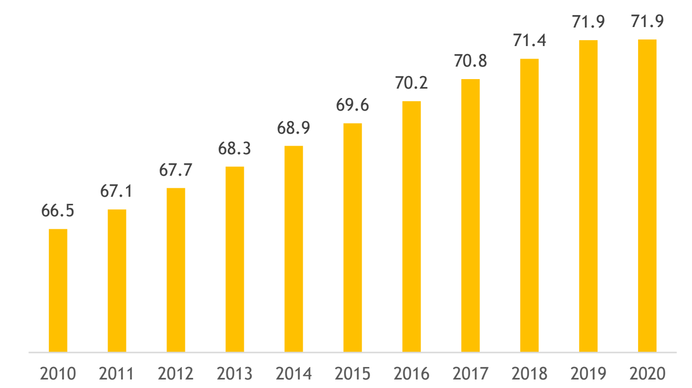
1.5. Human development

• Human Development Index

Indonesia's Human Development Index (HDI) has been on a positive trend. According to the Central Statistical Bureau (Biro Pusat Statistik/BPS), the index improved from 66.5 (out of 100) in 2010 to 71.9 in 2020. The 2020 figure was relatively in line with 2019, despite the pandemic. The UNDP data also shows a similar trend, where the index increased from 0.523 (out of one) in 1990 to 0.718 in 2019.

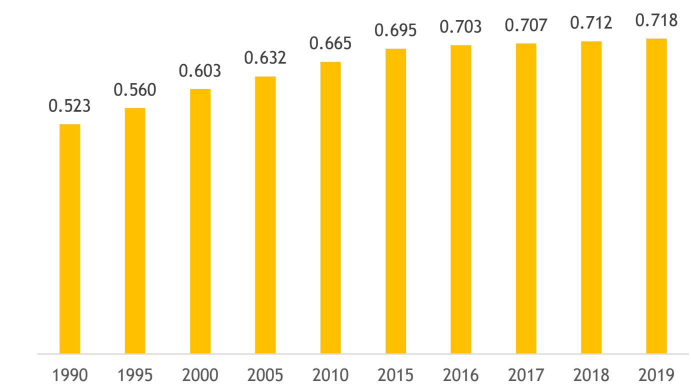
The improvement in the BPS HDI was supported by the four components of the index: 1) life expectancy at birth, 2) expected years of schooling, 3) mean years of schooling and 4) spending per capita (adjusted with purchasing power parity). In 2010-20 all four components showed positive trends. Interestingly, despite the pandemic, the YoY trend for 2020 also occurred in three components: life expectancy at birth (+0.2%), expected years of schooling (+0.2%), and mean years of schooling (+1.7%). Spending per capita was the only one that showed YoY decline (-2.5%), which we think was due to the pandemic.

Fig 31: Improving Human Development Index (BPS)



Source: BPS

Fig 32: Improving Human Development Index (UNDP)



Source: UNDP

Fig 33: Improving Human Development Index is supported by all components

Component	Unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Life expectancy at birth	Years	69.8	70.0	70.2	70.4	70.6	70.8	70.9	71.1	71.2	71.3	71.5
Expected years of schooling	Years	11.3	11.4	11.7	12.1	12.4	12.6	12.7	12.9	12.9	13.0	13.0
Mean years of schooling	Years	7.5	7.5	7.6	7.6	7.7	7.8	8.0	8.1	8.2	8.3	8.5
GNI per capita*	IDR 000	9,437	9,647	9,815	9,858	9,903	10,150	10,420	10,664	11,059	11,299	11,013
Human Development Index		**66.5**	**67.1**	**67.7**	**68.3**	**68.9**	**69.6**	**70.2**	**70.8**	**71.4**	**71.9**	**71.9**

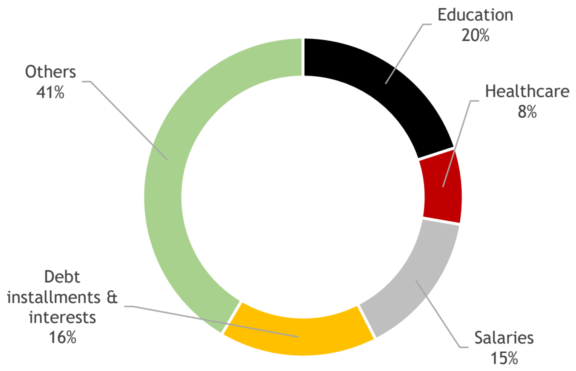
* adjusted with purchasing power parity (PPP)

Source: BPS

• Budget support

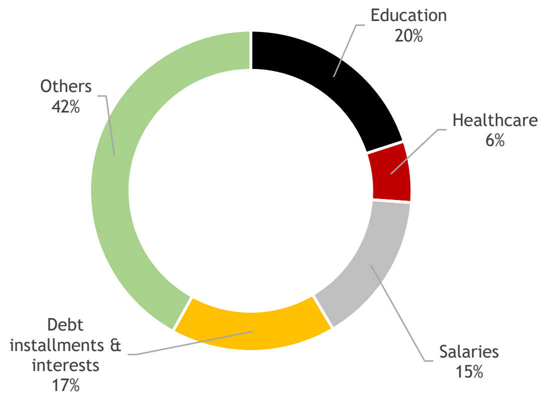
We think the government's commitment to education and healthcare can also be seen from the budget allocated for the two sectors. According to regulations (UU no. 20/2003 on education and UU 36/2009 on healthcare) the state budget must allocate a minimum of 20% and 5% of total spending on education and healthcare. Figs 34 and 35 highlight that in the 2020 and 2021 state budgets, total spending for the two sectors accounts for 28% and 26% of total budget spending, respectively.

Fig 34: State budget 2020: spending allocation



Source: MoF

Fig 35: State budget 2021: spending allocation



Source: MoF

• Improving healthcare

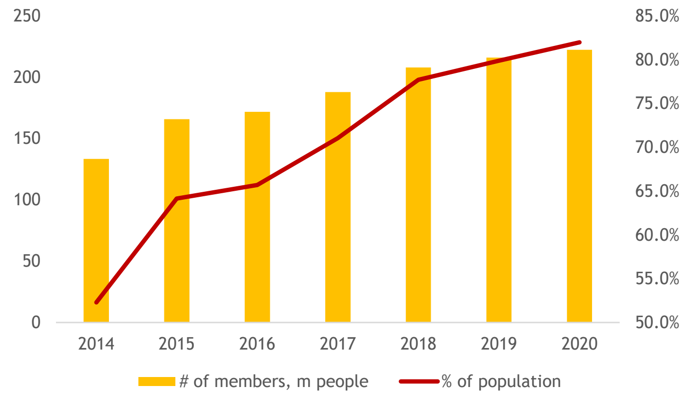
The issuance of the law (UU no. 24/2011) on Badan Penyelenggara Jaminan Sosial (BPJS), Indonesia's body for workers' welfare, is another sign of the government's commitment to healthcare. This is because the law requires all the population to be covered by social security. At the end of 2020, the number of people covered was 223m people, which was around 82% of the population and suggested 8.9% CAGR (2014-20). The percentage was significantly higher than 52.3% at the end of 2014.

Another of the government's strong commitment on healthcare can also be seen in its policy on excise tax for cigarettes. Since coming to power at the end of 2014, President Jokowi has increased excise tax for cigarettes by 103.5% or by a CAGR of 10.7% (2015-21). Interestingly the government increased the excise tax by double digits in 2021 even though purchasing power remains weak.

We would not be surprised if the government continues to increase excise tax in medium to long term. We think perhaps the most effective way to reduce consumption of cigarettes is for the government to ban sales of cigarettes per stick. That way, we think the smokers will find it expensive to purchase cigarettes.

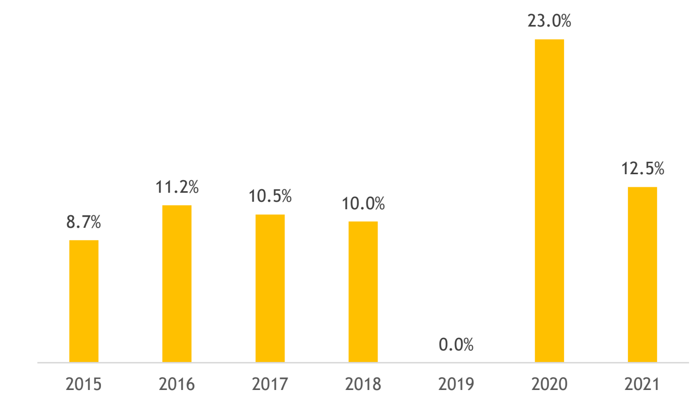
The Ministry of Finance in its fiscal policy guidance for 2021 also mentioned that the government will use excise as a tool not only to increase the government's revenue, but also to reduce consumption of unhealthy products (refer to our Indonesia Strategy report dated 10 July 2020 and titled MoF Strategic Plans).

Fig 36: Increasing healthcare coverage in Indonesia



Source: BPJS Kesehatan, Maybank Kim Eng

Fig 37: Excise tax for cigarettes increase almost every year



Source: MoF

- ## Gender participation

The proportion of Indonesia's population, based on gender, is relatively balanced: males 50.6% and females 49.4%. We do not think gender is a big issue in Indonesia. From a political perspective, we can see that since the era of President Soeharto, each president always allocates one post in the cabinet focusing on women's affairs. Megawati was the first woman, and so far, the only one, appointed president (2001-04).

To measure quality of gender treatment, we refer to two main indices provided by the Central Statistical Bureau (Biro Pusat Statistik/BPS): 1) Indeks Pembangunan Gender (Gender Development Index/GDI); and 2) Indeks Pemberdayaan Gender (Gender Empowerment Measure/GEM). Both indices showed improvements during 2010-20.

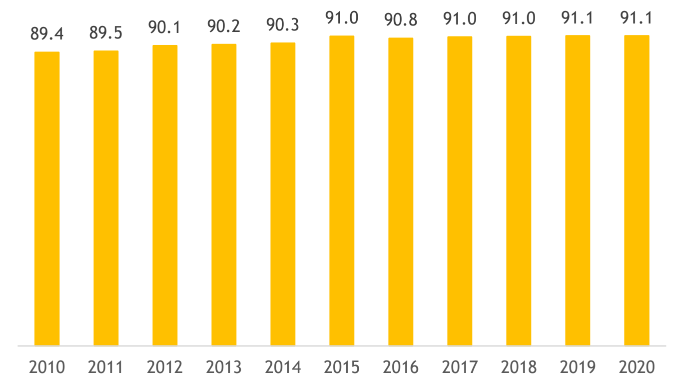
GDI measures the ratio between women's development index and men's index. The higher the number, the better because it says the gap is narrowing between women and men. There are three dimensions included in the analysis: life expectancy, knowledge (years of schooling) and income.

In 2010-20 GDI improved by 0.2% CAGR from 89.4 (out of 100) in 2010 to 91.1 in 2020. We think this is a good development because it suggests that the gap between women and men in terms of human development is less than 10%.

We think the GDI improvement was mainly due to improvements in education and income. In 2010-20, the mean years of schooling for women improved by 1.6% CAGR from 6.9 years to 8.1 years. The CAGR was higher than 1.2% for men. On the income front, during the same period, annual income per capita for women increased from IDR7.6m to IDR9m, suggesting 1.7% CAGR, higher than 1.1% for men.

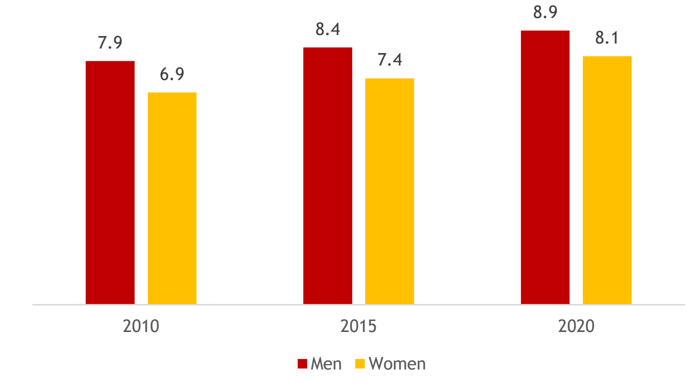
Meanwhile, on the life expectancy front, the figure suggests life expectancy for women increased by 0.2% CAGR from 71.8 years in 2010 to 73.5 years for 2020. The CAGR was similar for men where life expectancy increased from 67.9 years in 2010 to 69.6 years in 2020.

Fig 38: Steady improvement in Gender Development Index



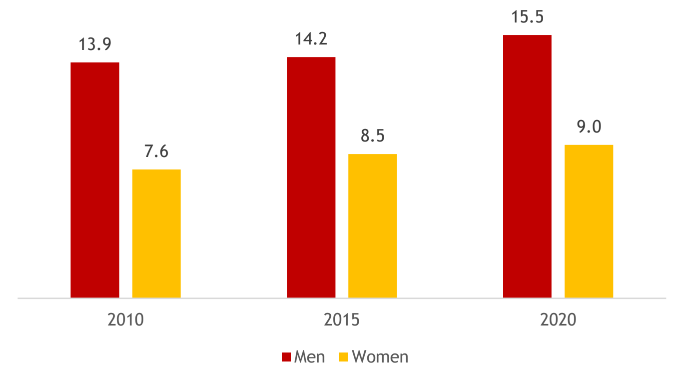
Source: BPS

Fig 39: Improving mean years of schooling



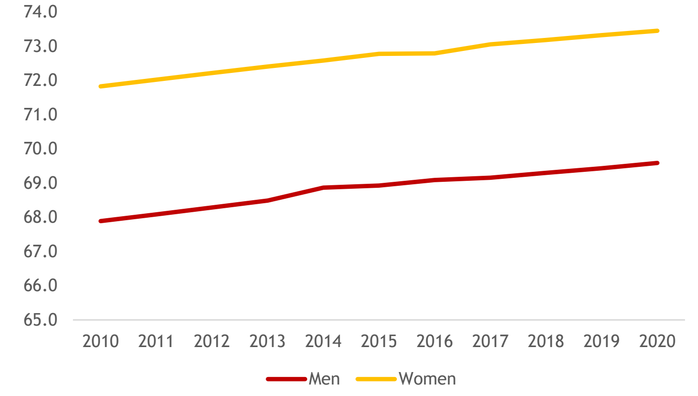
Source: BPS

Fig 40: Improving annual income per capital (IDR m)



Source: BPS

Fig 41: Improving life expectancy (years)



Source: BPS

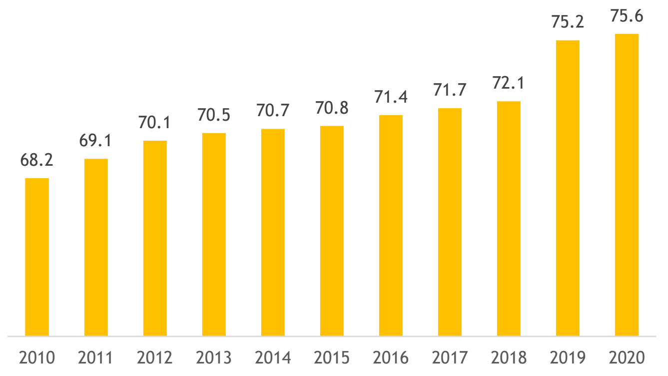
Meanwhile, GEM measures women's active participation in the economic and political fields. There are three dimensions measured: 1) women's participation in parliament; 2) women's participation in decision making; and 3) distribution of income. In 2010-20, GEM improved from 68.2 (out of 100) to 75.6.

The first dimension, women's participation in parliament, suggests women's participation was relatively stagnant at 17-18% in 2010-18 and jumped to over 20% in 2019-20. Despite the increase, the participation was still below the 30% quota as set by the regulation.

The second dimension, women's participation in decision making, suggests in 2010-20 the number of women in managerial positions increased from 22.3% to 33.1%. This suggests that despite increase women's participation in decision making, most decision making was still dominated by men.

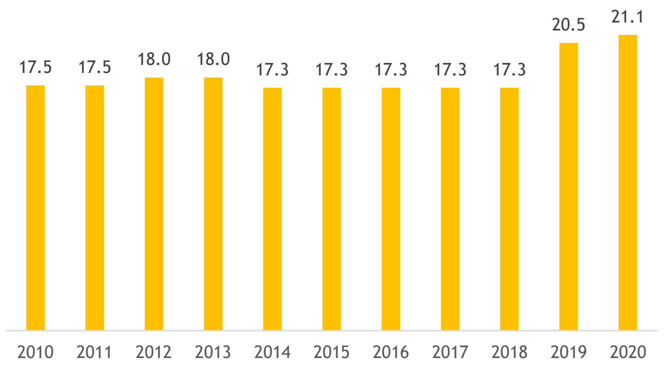
The third dimension, distribution of income, showed the same trend as the second one. Although women's contribution to income increased to 37.3% in 2020 from 33.5% in 2010, most of income was still contributed by men.

Fig 42: Improving Gender Empowerment Measure



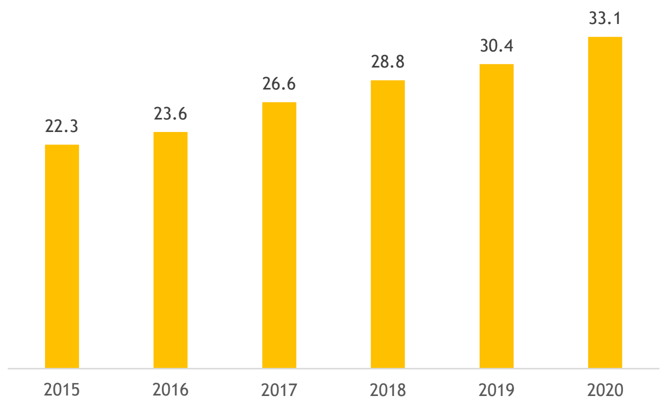
Source: BPS

Fig 43: Women's participation in parliament (%): still below 30% quota



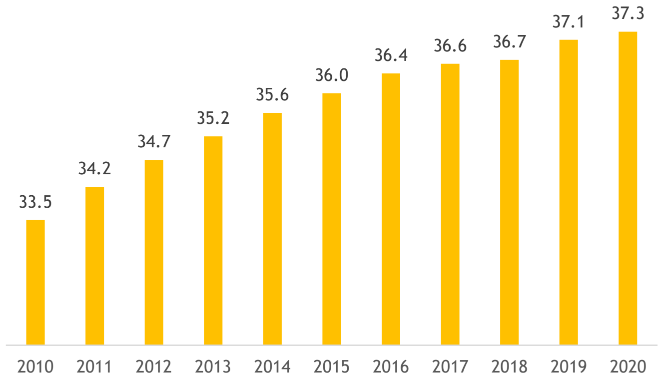
Source: BPS

Fig 44: Women's participation in managerial positions (%): still below 50%



Source: BPS

Fig 45: Women's contribution to income (%)



Source: BPS

2. Corporate level: various

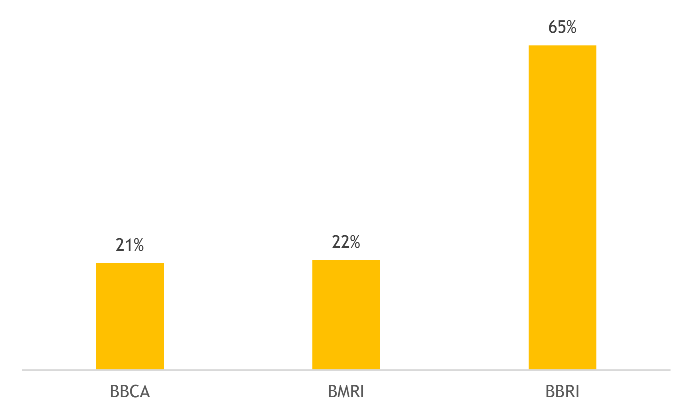
ESG is not something new for Indonesian-listed companies, even though implementation is quite diverse from one sector to another. We think, on a relative basis, ESG implementation in the automotive, banking and cement sectors is better than others due to supportive regulations, change of event (pandemic), and clear plans to absorb environmentally friendly input materials (cement sector in particular). Governance practises are satisfactory, though there is room for improvement e.g. female participation remains low at the board level.

2.1. Not really early

Our observation suggests that implementation of ESG is not new for listed companies. However, we note implementation varies between one sector/company to another. The banking sector, we think, has made quite good progress on the ESG front even though it does not specifically ban certain non-ESG friendly sectors such as coal. Moreover, we note that some banks, especially the bigger ones, have a good proportion of sustainability-based loans to total loans. Fig 46 suggests, as of end of 1Q21, the proportion of sustainability-based loans to total loans were 21%, 22% and 65% for BBCA, BMRI, and BBRI, respectively.

We think the sector's contribution to ESG will continue to rise along with the increasing number of digital transactions. According to Bank Indonesia (BI) in 2020, the value of digital banking transactions reached IDR27,036t or 175% of GDP. BI estimates the value will increase by 19.1% YoY in 2021 to reach IDR32,206t or 197% of GDP. We understand that some big banks such as BBCA, BBRI and BMRI are working on branchless digital banking projects to be launched in 2021.

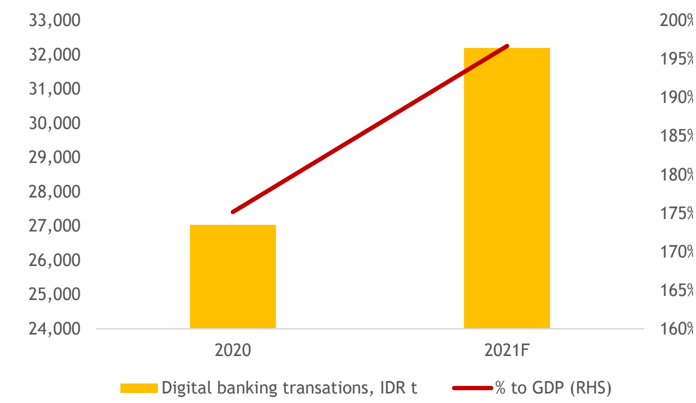
Fig 46: Portion of sustainable loans to total*



* as of end of 1Q21

Source: Company

Fig 47: Increasing digital transactions



Source: Bank Indonesia, Maybank Kim Eng

Despite increasing digital transactions, we note that online transactions among the retailers that we cover is still low (2-10%) to total transactions. MAPI has the highest proportion (10%), while ACES, LPPS, and RALS have relatively similar figures (2%). We think the low figure can be attributed to several factors such as: 1) customers (especially low-end) are not tech savvy; and 2) high investments to develop online platforms.

One good thing for retailers in terms of ESG implementation is that they no longer provide single-use plastic bags, especially in Jakarta, which is in line with regional governments' policies. Another one is the retailers are now using energy-efficient lighting in their stores/operations.

For the consumer sector, we think consumption of plastics for packaging accounts for c.10% of costs, and sales of sweet F&B account for 10-15% of total sales. We think the government's plan to impose excise taxes on plastics and sugar could be positive to reduce consumption of plastics and sugar. The impact of the policies to earnings of consumer companies is not going to be automatically negative as long as they can pass on the cost increases to consumers.

We also note that perhaps only a few consumer companies implement ESG principles in their supply/procurement chain. This includes, among others, making sure the suppliers have certain certifications and comply with labour laws. We think at this stage these practices might be fully applied by multinational companies, such as UNVR.

Automotive is perhaps the sub-consumer sector that has the clearest ESG path. Starting from October, tax on sales of luxury goods (PPnBM) for the automotive industry will be based on gas emission and no longer based on engine size. The government also targets than in 2025, 20% of automotive production is hybrid-and-electric based (now less than 1%). In the long term, the government plans to make the country the regional hub for production of EV batteries. The targets look ambitious as transition to hybrid-and-electric cars require support not only for the required infrastructure, but also for pricing.

Moving on to cement sector, we note the sector still relies on coal as the main sources for energy. We understand that both INTP and SMGR have made efforts to reduce reliance on coal by increasing portion of alternative, but we think the impact on earnings will only be seen over the next five years. We think the emission-reduction efforts by cement companies will be accelerated once the government imposes carbon tax on gas emissions.

For the construction sector, we understand that the main ESG focus is on labour (safety and wages) and the tender process, but so far we are not aware of any major issues on those fronts. One thing we note is we do not think construction companies have any specific targets to focus on green projects.

In the property sector, we think implementation of ESG is quite good. None of the listed property companies under coverage operate in forestry areas. They also comply with 30% green space area rule.

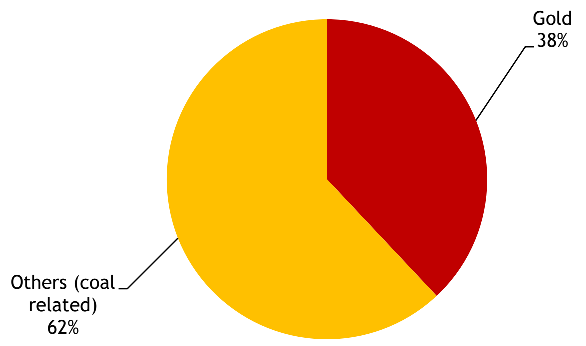
Last but not least is ESG implementation in the mining sector. Several interesting things we noticed: 1) all listed mining companies have good relationships with their surrounding communities, which is positive to support business sustainability; and 2) their mining operations are based on good standards resulting in low number of fatal accidents.

One thing that they are lacking is their strategy to diversify the businesses from coal. We understand that UNTR has gold assets in its portfolio, but its earnings contribution is still less than 50% (1Q21: 38%). The lack of diversification at UNTR also impacts the earnings profile of ASII as some portion of its earnings (1Q21: 18% in our estimate) is still related to coal.

Another coal company that has a clear diversification strategy is HRUM, which has acquired several nickel assets. It will keep its coal assets, but clearly management focus is on nickel instead of coal. We also understand ADRO is planning to diversify into non-thermal coal assets and acquired a coking coal asset (Kestrel) in Australia in 2019. However, we expect the majority of earnings will still be contributed by thermal coal. We also understand that PTBA is interested to enter the renewable energy sector, but the company has yet to unveil concrete plans.

Another one where mining companies are lacking is related to source of energy. Most mining companies rely on fossil fuels for their energy needs. So far, we are not aware of their plans to diversify their source of energy to alternative sources. This is not positive in our view because that means mining companies contribute to carbon emission not only from their product (coal) but also from sources of energy used in the mining activities.

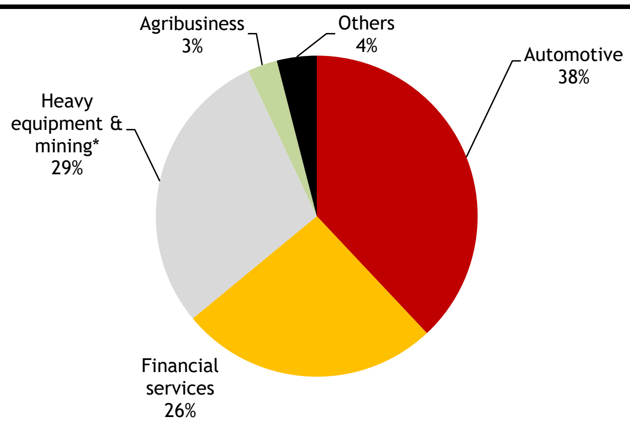
Fig 48: Breakdown of UNTR's 1Q21 earnings*



* based on pre-elimination profit before tax

Source: Company

Fig 49: Breakdown of ASII's 1Q21 earnings



* 62% of which were coal related

Source: Company

2.2. Untapped green financing

The Indonesia Financial Services Authority (Otoritas Jasa Keuangan/OJK) in 2017 issued a regulation (Peraturan OJK no. 60/POJK.04/2017) on green bond issuance. The issuance has to get consent from an environmental expert. A minimum of 70% of the proceeds will have to be used to finance environmentally friendly businesses, which are in the following sectors:

- renewable energy,
- energy efficiency,
- pollution prevention and control,
- sustainable natural resources and land use,
- terrestrial and aquatic biodiversity conservation,
- sustainable transportation,
- sustainable water and wastewater management,
- climate change adaptation,
- eco-efficient products,
- green building, and
- other environmentally friendly business activities.

Despite the regulatory support, we note green bond financing has not been well exploited by Indonesian companies.

- We think the IDR500b green bond issuance by Sarana Multi Infrastruktur (SMI), an SOE focusing on the infrastructure sector, in 2018 might be the only one listed in Indonesia.

- We understand there are other issuances by government (USD750m Green Sukuk/shariah bond in 2020) and Bank Mandiri (USD300 Sustainability Bond in 2021), but they are not listed locally.

- We understand that other SOEs, PLN (power) and Pertamina (oil & gas), plan to issue green bonds in 2021-22 to finance their environmental projects.

2.3. Governance: lack of gender equality

The presence of an independent commissioner is a good sign of governance practice at a listed company. According to OJK regulation, the minimum number of independent commissioners at a listed company is 30% of the total number of commissioners provided that the number of commissioners is more than two. Our analysis of 41 stocks under coverage suggests 45% of members of Board of Commissioners (BoC) are independent.

We also found that the number of independent/non-affiliated directors is only 2.7% of the total number of directors. We think the low number is because it is not mandatory for a listed company to have an independent director in the composition of the Board of Directors (BoD). Note the regulation on independent director applied in 2004-18. While we understand that the function of monitoring is still done by independent commissioner, it would be better for the monitoring function to be done at BoD and BoC levels.

In terms of gender participation, we notice that female participation in top management is low. Out of the total combined number of BoD and BoC members, 14.9% is female. For BoD, female members account for 17.1% of the total, and for BoC female members account for 12.4%. We think the low participation is because there is no requirement for minimum gender participation in BoD and/or BoC.

Fig 50: Breakdown of BoD and BoC of companies under coverage

No.	Ticker	BoD			BoC			BoD & BoC			BoD			BoC			BoD & BoC		
		I	NI	Total	I	NI	Total	I	NI	Total	M	F	Total	M	F	Total	M	F	Total
1	ACES	0.0%	100.0%	100.0%	50.0%	50.0%	100.0%	20.0%	80.0%	100.0%	66.7%	33.3%	100.0%	100.0%	0.0%	100.0%	80.0%	20.0%	100.0%
2	ADHI	0.0%	100.0%	100.0%	33.3%	66.7%	100.0%	16.7%	83.3%	100.0%	83.3%	16.7%	100.0%	100.0%	0.0%	100.0%	91.7%	8.3%	100.0%
3	ADRO	0.0%	100.0%	100.0%	40.0%	60.0%	100.0%	20.0%	80.0%	100.0%	100.0%	0.0%	100.0%	80.0%	20.0%	100.0%	90.0%	10.0%	100.0%
4	AKRA	0.0%	100.0%	100.0%	33.3%	66.7%	100.0%	10.0%	90.0%	100.0%	57.1%	42.9%	100.0%	100.0%	0.0%	100.0%	70.0%	30.0%	100.0%
5	ASII	0.0%	100.0%	100.0%	40.0%	60.0%	100.0%	21.1%	78.9%	100.0%	88.9%	11.1%	100.0%	90.0%	10.0%	100.0%	89.5%	10.5%	100.0%
6	ASRI	25.0%	75.0%	100.0%	40.0%	60.0%	100.0%	33.3%	66.7%	100.0%	75.0%	25.0%	100.0%	80.0%	20.0%	100.0%	77.8%	22.2%	100.0%
7	BBCA	0.0%	100.0%	100.0%	40.0%	60.0%	100.0%	11.8%	88.2%	100.0%	83.3%	16.7%	100.0%	100.0%	0.0%	100.0%	88.2%	11.8%	100.0%
8	BBNI	0.0%	100.0%	100.0%	70.0%	30.0%	100.0%	31.8%	68.2%	100.0%	75.0%	25.0%	100.0%	90.0%	10.0%	100.0%	81.8%	18.2%	100.0%
9	BBRI	0.0%	100.0%	100.0%	60.0%	40.0%	100.0%	27.3%	72.7%	100.0%	83.3%	16.7%	100.0%	80.0%	20.0%	100.0%	81.8%	18.2%	100.0%
10	BBTN	0.0%	100.0%	100.0%	28.6%	71.4%	100.0%	12.5%	87.5%	100.0%	77.8%	22.2%	100.0%	100.0%	0.0%	100.0%	87.5%	12.5%	100.0%
11	BDMN	0.0%	100.0%	100.0%	42.9%	57.1%	100.0%	17.6%	82.4%	100.0%	80.0%	20.0%	100.0%	85.7%	14.3%	100.0%	82.4%	17.6%	100.0%
12	BEST	0.0%	100.0%	100.0%	75.0%	25.0%	100.0%	37.5%	62.5%	100.0%	75.0%	25.0%	100.0%	100.0%	0.0%	100.0%	87.5%	12.5%	100.0%
13	BJBR	0.0%	100.0%	100.0%	60.0%	40.0%	100.0%	25.0%	75.0%	100.0%	57.1%	42.9%	100.0%	100.0%	0.0%	100.0%	75.0%	25.0%	100.0%
14	BMRI	0.0%	100.0%	100.0%	50.0%	50.0%	100.0%	22.7%	77.3%	100.0%	83.3%	16.7%	100.0%	80.0%	20.0%	100.0%	81.8%	18.2%	100.0%
15	BSDE	0.0%	100.0%	100.0%	40.0%	60.0%	100.0%	15.4%	84.6%	100.0%	75.0%	25.0%	100.0%	80.0%	20.0%	100.0%	76.9%	23.1%	100.0%
16	CTRA	10.0%	90.0%	100.0%	42.9%	57.1%	100.0%	23.5%	76.5%	100.0%	90.0%	10.0%	100.0%	42.9%	57.1%	100.0%	70.6%	29.4%	100.0%
17	DMAS	25.0%	75.0%	100.0%	33.3%	66.7%	100.0%	30.0%	70.0%	100.0%	100.0%	0.0%	100.0%	83.3%	16.7%	100.0%	90.0%	10.0%	100.0%
18	GGRM	14.3%	85.7%	100.0%	50.0%	50.0%	100.0%	27.3%	72.7%	100.0%	100.0%	0.0%	100.0%	75.0%	25.0%	100.0%	90.9%	9.1%	100.0%
19	HMSP	0.0%	100.0%	100.0%	50.0%	50.0%	100.0%	20.0%	80.0%	100.0%	66.7%	33.3%	100.0%	100.0%	0.0%	100.0%	80.0%	20.0%	100.0%
20	ICBP	0.0%	100.0%	100.0%	50.0%	50.0%	100.0%	18.8%	81.3%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
21	INCO	0.0%	100.0%	100.0%	30.0%	70.0%	100.0%	18.8%	81.3%	100.0%	83.3%	16.7%	100.0%	90.0%	10.0%	100.0%	87.5%	12.5%	100.0%
22	INDF	0.0%	100.0%	100.0%	37.5%	62.5%	100.0%	18.8%	81.3%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
23	INTP	0.0%	100.0%	100.0%	42.9%	57.1%	100.0%	21.4%	78.6%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
24	ITMG	0.0%	100.0%	100.0%	42.9%	57.1%	100.0%	18.8%	81.3%	100.0%	100.0%	0.0%	100.0%	85.7%	14.3%	100.0%	93.8%	6.3%	100.0%
25	JSMR	0.0%	100.0%	100.0%	50.0%	50.0%	100.0%	25.0%	75.0%	100.0%	83.3%	16.7%	100.0%	50.0%	50.0%	100.0%	66.7%	33.3%	100.0%
26	KLBF	0.0%	100.0%	100.0%	50.0%	50.0%	100.0%	27.3%	72.7%	100.0%	100.0%	0.0%	100.0%	66.7%	33.3%	100.0%	81.8%	18.2%	100.0%
27	LPKR	0.0%	100.0%	100.0%	40.0%	60.0%	100.0%	15.4%	84.6%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
28	LPPF	75.0%	25.0%	100.0%	50.0%	50.0%	100.0%	62.5%	37.5%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
29	MAPI	0.0%	100.0%	100.0%	40.0%	60.0%	100.0%	16.7%	83.3%	100.0%	57.1%	42.9%	100.0%	80.0%	20.0%	100.0%	66.7%	33.3%	100.0%
30	MYOR	0.0%	100.0%	100.0%	40.0%	60.0%	100.0%	20.0%	80.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
31	PGAS	0.0%	100.0%	100.0%	50.0%	50.0%	100.0%	25.0%	75.0%	100.0%	100.0%	0.0%	100.0%	83.3%	16.7%	100.0%	91.7%	8.3%	100.0%
32	PTBA	0.0%	100.0%	100.0%	33.3%	66.7%	100.0%	18.2%	81.8%	100.0%	60.0%	40.0%	100.0%	100.0%	0.0%	100.0%	81.8%	18.2%	100.0%
33	PTPP	0.0%	100.0%	100.0%	50.0%	50.0%	100.0%	25.0%	75.0%	100.0%	83.3%	16.7%	100.0%	100.0%	0.0%	100.0%	91.7%	8.3%	100.0%
34	PWON	0.0%	100.0%	100.0%	33.3%	66.7%	100.0%	11.1%	88.9%	100.0%	66.7%	33.3%	100.0%	66.7%	33.3%	100.0%	66.7%	33.3%	100.0%
35	RALS	20.0%	80.0%	100.0%	33.3%	66.7%	100.0%	27.3%	72.7%	100.0%	100.0%	0.0%	100.0%	83.3%	16.7%	100.0%	90.9%	9.1%	100.0%
36	SMGR	0.0%	100.0%	100.0%	28.6%	71.4%	100.0%	14.3%	85.7%	100.0%	85.7%	14.3%	100.0%	71.4%	28.6%	100.0%	78.6%	21.4%	100.0%
37	SMRA	0.0%	100.0%	100.0%	60.0%	40.0%	100.0%	23.1%	76.9%	100.0%	62.5%	37.5%	100.0%	80.0%	20.0%	100.0%	69.2%	30.8%	100.0%
38	UNTR	0.0%	100.0%	100.0%	33.3%	66.7%	100.0%	16.7%	83.3%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
39	UNVR	0.0%	100.0%	100.0%	83.3%	16.7%	100.0%	31.3%	68.8%	100.0%	40.0%	60.0%	100.0%	83.3%	16.7%	100.0%	56.3%	43.8%	100.0%
40	WIKA	0.0%	100.0%	100.0%	42.9%	57.1%	100.0%	21.4%	78.6%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
41	WSKT	0.0%	100.0%	100.0%	42.9%	57.1%	100.0%	21.4%	78.6%	100.0%	85.7%	14.3%	100.0%	100.0%	0.0%	100.0%	92.9%	7.1%	100.0%
	TOTAL	**2.7%**	**97.3%**	**100.0%**	**45.0%**	**55.0%**	**100.0%**	**22.0%**	**78.0%**	**100.0%**	**82.9%**	**17.1%**	**100.0%**	**87.6%**	**12.4%**	**100.0%**	**85.1%**	**14.9%**	**100.0%**

Note: I = independent; NI = non independent; M = male; F = female

Source: Company, Maybank Kim Eng

3. Not in the short term: snowball effect

We believe ESG will become important for the market over the medium to long term. The positive things are: 1) the market has been adjusting to the changes, as shown by underperformance of environmentally unfriendly sectors; and 2) regulators are also proactive towards the ESG trend. However, over the next 6-9 months we think the market will focus more on the Covid situation (cases and vaccinations) and economic recovery.

3.1. Not new from regulatory aspect

We believe responsible investment is not something new in Indonesia's equity market. In 2016, OJK issued a regulation (Peraturan OJK No. 29/POJK.04/2016) that states that an annual report of a listed company must include an ESG section. This is in addition to other sections, such as Board of Directors (BoD) and Board of Commissioners (BoC) reports, management discussion and analysis, and audited financial report.

To support ESG implementation, in 2017 OJK issued another regulation (Peraturan OJK No. 51/POJK.03/2017) on the implementation of sustainable finance for financial institutions, listed and public companies. According to the regulation, the three entities are required to implement sustainable finance based on the following principles:

- responsible investment,
- sustainable business strategy and practice,
- management of social and environmental risks,
- governance,
- informative communication,
- inclusiveness,
- development of priority sectors, and
- coordination and collaboration.

Long before OJK issued ESG-related regulations, on 8 June 2009, Indonesia Stock Exchange (IDX) in cooperation with KEHATI (Keragaman Hayati) Foundation launched an SRI-KEHATI (Sustainable and Responsible Investment) index, which consists of 25 stocks (refer to Fig 51 for the latest list of constituents). The index is reviewed twice per year: in May and November.

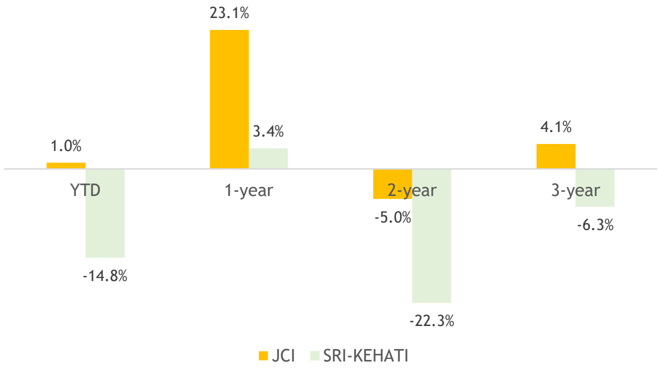
In addition to ESG variables, other criteria for stock selection include: 1) not being engaged in certain industries (pesticide, nuclear, weapons, tobacco, porn, gambling, genetically modified organism/GMO, and coal mining); 2) positive PER valuation; 3) above 10% free float; and 4) minimum market capitalization of IDR1t. In terms of performance, the SRI-KEHATI index underperformed the Jakarta Composite Index (JCI) in the short and medium terms (Fig 52).

Fig 51: Constituents of SRI-KEHATI index

No	Stock	No	Stock	No	Stock	No	Stock	No	Stock
1	ASII	6	BBTN	11	INDF	16	PGAS	21	TINS
2	AUTO	7	BMRI	12	JSMR	17	POWR	22	TLKM
3	BBCA	8	BSDE	13	KLBF	18	PTPP	23	UNTR
4	BBNI	9	DSNG	14	LSIP	19	SIDO	24	UNVR
5	BBRI	10	INCO	15	NISP	20	SMGR	25	WIKA

Source: IDX

Fig 52: Return performance: SRI-KEHATI underperformed JCI



Source: IDX, Maybank Kim Eng

On 14 December 2020, the IDX launched the IDX ESG Leaders index, which consists of 15-30 stocks. In selecting the constituents, the IDX refers to the ESG risk assessment and controversy score provided by Sustainalytics. In the selection process, stocks with the following criteria will be excluded: 1) controversy scores of 4 and 5 and 2) high risk. Stock weighting in the index is based on free float. The index is reviewed twice a year: in the beginning of March and September. Fig 53 highlights the list of constituents that apply from 21 June to 14 September.

Fig 53: Constituents of IDX ESG Leaders index

No	Stock	No	Stock	No	Stock	No	Stock	No	Stock	No	Stock
1	ACES	6	BBRI	11	BULL	16	HMSP	21	MNCN	26	TBIG
2	AKRA	7	BBTN	12	CTRA	17	INTP	22	PWON	27	TLKM
3	ASII	8	BEST	13	DMAS	18	JSMR	23	RALS	28	TOWR
4	BBCA	9	BMRI	14	ERAA	19	LPPF	24	SCMA	29	UNVR
5	BBNI	10	BSDE	15	EXCL	20	MAPI	25	SMGR	30	WOOD

Source: IDX

3.2. The ball is rolling

We understand that most of the Indonesia-based funds are not based on ESG variables. Despite this, we think investors have indirectly been using ESG variables in their stock selection even though their funds are not ESG focused.

Fig 54 suggests that 1) coal stocks under our coverage underperformed coal price for YTD, 1-year, 2-year and 3-year investment horizons even though the latter is the most important variable for earnings of coal companies, 2) PTBA and UNTR underperformed the overall market (JCI) for the same investment horizons, 3) ADRO outperformed the JCI for 2-year horizon, but underperformed it for YTD, 1-year and 3-year investment horizons, and 4) ITMG outperformed the JCI for YTD and 1-year horizons, but underperformed it for 2-year and 3-year horizons.

The underperformance of coal stocks relative to coal price suggests the latter is no longer the focus for the market. We think the market also pays attention to other variables, such as ESG, when evaluating coal stocks.

Fig 54: Coal stocks have underperformed coal price

	Time Horizon			
	YTD	1-year	2-year	3-year
JCI	1.6%	19.1%	-5.1%	2.8%
Coal price	75.0%	169.2%	89.2%	15.7%
ADRO	-8.4%	11.7%	-3.5%	-31.1%
ITMG	11.7%	98.7%	-12.5%	-35.7%
PTBA	-21.8%	0.5%	-25.0%	-49.8%
UNTR	-3.7%	5.3%	-30.6%	-42.0%

Source: Bloomberg, Maybank Kim Eng

We found relatively similar situations for CPO stocks. Despite positive performance of CPO price in all time horizons, AALI underperformed it while LSIP underperformed it for YTD and 2-year horizons but outperformed it for 1-year and 3-year horizons. Relative to the JCI, AALI underperformed the index for YTD, 1-year, 2-year, and 3-year horizons. Meanwhile, LSIP underperformed the index for YTD and 1-year horizons but outperformed it for 2-year and 3-year horizons.

Fig 55: CPO stocks have underperformed CPO price most of the time

	Time Horizon			
	YTD	1-year	2-year	3-year
JCI	1.6%	19.1%	-5.1%	2.8%
CPO price	27.9%	15.6%	27.7%	14.3%
AALI	-37.3%	-13.9%	-28.0%	-24.4%
LSIP	-19.6%	17.6%	0.9%	20.8%

Source: Bloomberg, Maybank Kim Eng

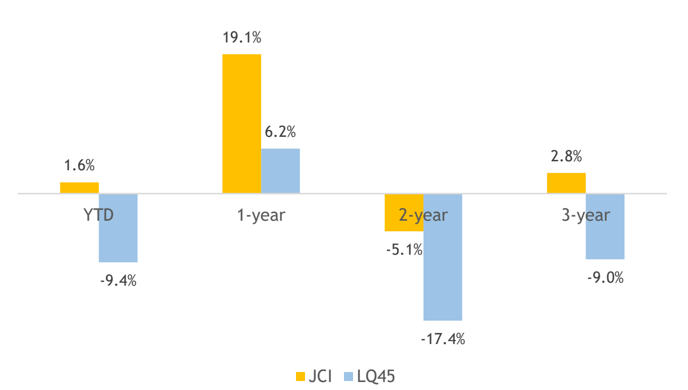
While we understand the growing importance of ESG to the market, we think this is more for the medium to long term. One of the reasons, we think, is the limited number of investable stocks (market cap above USD500m). We estimate only 18-20% of listed companies can meet the criteria. This is supported by the fact that LQ45 (blue chip) stocks have underperformed the JCI in the last couple of years (Fig 56), suggesting that one will need to invest in small-cap stocks to beat the market.

We think over the next 6-9 months the market focus will be on: 1) vaccination in Indonesia; and 2) IPOs of technology companies. The two factors are necessary to offset the potential headwinds in the market, such as bond yield volatility, the absence of BPJS (pension fund for workers) in the market, and unexciting GDP and corporate earnings growth.

Improving vaccination is important for the economy, especially after the government decided to tighten people's movement to curb increasing Covid-19 cases (refer to our Indonesia Strategy report dated 2 July and titled Balancing act). Fig 59 suggests the number of daily jabs has increased to c.1m, in line with the government target. We estimate if the number of daily jabs can be maintained, by the end of 2021 around 110m people (42% of population) will have been vaccinated, which will be positive for the economy.

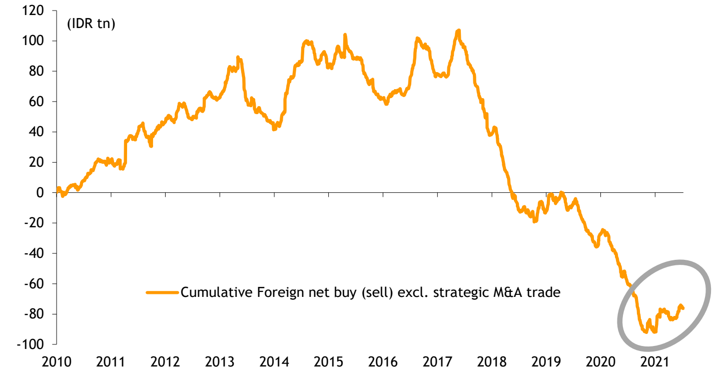
Meanwhile, IPOs of technology companies, such as Bukalapak and GoTo, will be positive for the market. We think this could attract foreign investors to the market as one of the reasons for the JCI to underperform developed markets is the absence of tech stocks in the market. We estimate since the middle of 2017, net foreign outflows have reached c. IDR180t. We estimate the tech sector will be an important sector with an estimated weight of c. 12% (refer to our Indonesia Strategy report dated 3 June and titled Better clarity on index weighting).

Fig 56: LQ45 underperformed the JCI



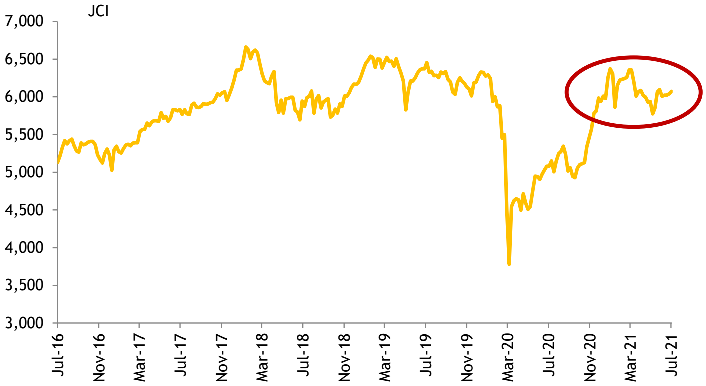
Source: Bloomberg, Maybank Kim Eng

Fig 57: Positive trend in foreign ownership



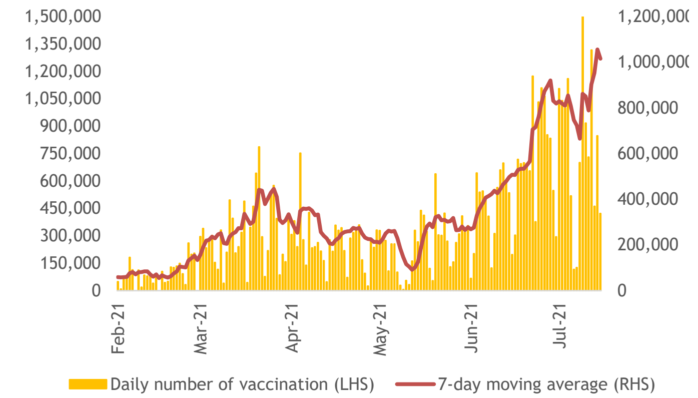
Source: Bloomberg, IDX, Maybank Kim Eng

Fig 58: JCI is likely to move sideways…



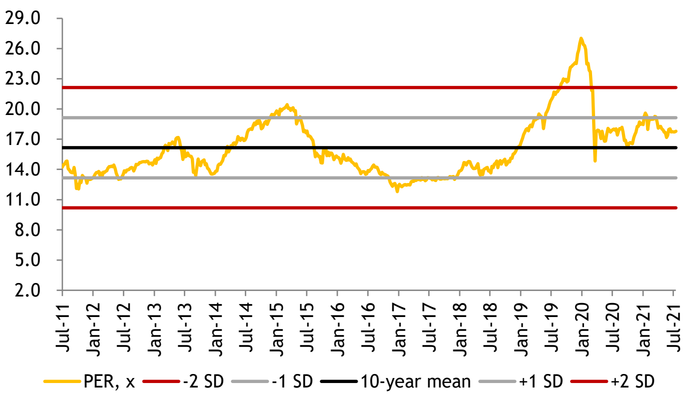
Source: Bloomberg

Fig 59: ..if improving vaccination is not sustainable



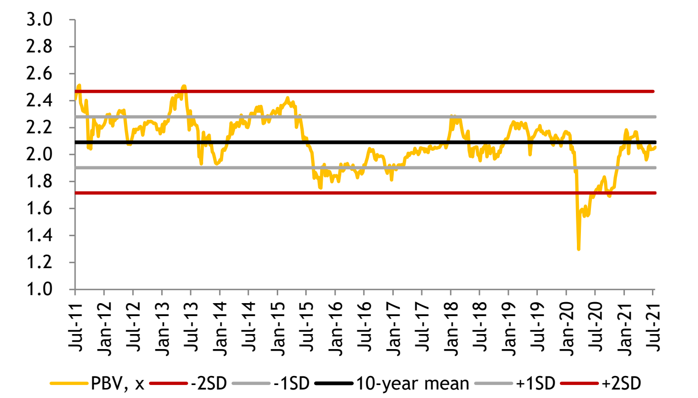
Source: KPC PEN, Maybank Kim Eng

Fig 60: JCI valuation not cheap from PER…



Source: Bloomberg, Maybank Kim Eng

Fig 61: ..and PBV angles



Source: KPC PEN, Maybank Kim Eng

4. Introduction to MKE ESG portfolio

For this report, we have set up an ESG-friendly stock portfolio. Because we do not have internal detailed ESG scoring and ranking, we refer to the data and analysis provided by Sustainalytics in assessing ESG aspects of each stock under our coverage.

There are four criteria that we use in selecting the stocks: ESG rating, controversy score, theme of the stock and investment rating. Note that we assign the same weight for each variable.

- **ESG rating** of negligible/low/medium. Sustainalytics categorizes ESG risk rating into five groups: negligible, low, medium, high and severe.

- **Controversy score** of zero, one or two, suggesting controversy **rating** of no evidence, low, and moderate, respectively. According to Sustainalytics, controversy score and rating reflect incidents that may negatively impact stakeholders, the environment, or the company's operations.

- The stock must have a **theme** that is in line with one of our investment theses for the market: cyclical/recovery, the Omnibus law, or industrialization in the resources sector. From a risk perspective, we try to avoid to companies vulnerable to government intervention, which can be negative to their operations.

- The stock must have a **BUY** rating.

Fig 62 highlights 12 stocks that meet our criteria (by alphabetical order): ACES, AKRA, ASII, BBNI, BMRI, CTRA, DMAS, JSMR, MAPI, SMGR, SMRA and UNVR. Our portfolio does not include resources companies due to their high ESG risk (high or severe) and being subject to government's policies, which could be significantly negative to their businesses.

Fig 62: MKE ESG portfolio

Ticker	Rating	Price*, IDR	TP, IDR	Upside, %	Market cap, USD m	ESG Score***	ESG Risk Rating***	Controversy Score***	Controversy Rating***	PER**, x	PBV**, x	Yield**, %	ROE**, %
ACES	BUY	1,380	1,950	43.3	1,619	18.4	Low	0	No evidence	21.1	4.1	2.0	20.4
AKRA	BUY	3,330	4,700	43.8	914	26.7	Medium	0	No evidence	14.9	1.4	2.7	10.0
ASII	BUY	4,870	8,000	68.0	13,486	28.4	Medium	2	Moderate	10.6	1.2	3.8	11.5
BBNI	BUY	4,900	8,200	69.3	6,251	27.5	Medium	2	Moderate	11.5	0.8	2.0	7.2
BMRI	BUY	5,925	7,875	37.3	18,914	29.7	Medium	2	Moderate	12.4	1.4	4.4	11.5
CTRA	BUY	930	1,400	51.5	1,179	27.0	Medium	2	Moderate	19.9	1.0	1.0	5.3
DMAS	BUY	194	270	50.6	640	26.3	Medium	0	No evidence	8.8	1.4	11.4	17.8
JSMR	BUY	3,720	5,500	48.5	1,847	14.1	Low	1	Low	18.3	1.3	0.7	7.5
MAPI	BUY	650	950	47.1	738	22.0	Medium	0	No evidence	21.6	1.8	1.0	8.9
SMGR	BUY	8,850	14,100	60.6	3,591	28.0	Medium	2	Moderate	19.4	1.4	1.3	7.7
SMRA	BUY	785	1,250	59.4	775	29.1	Medium	0	No evidence	30.4	1.4	0.1	5.1
UNVR	BUY	5,125	9,800	95.2	13,374	18.7	Low	0	No evidence	25.2	39.6	4.0	156.9

* Based on closing prices as of 21 July 2021; ** based on 2021 earnings forecasts; *** derived from leading external ESG research and data provider Sustainalytics

Source: Bloomberg,Maybank Kim Eng, Sustainalytics

5. ESG SECTOR REVIEWS

5.1. Automotive

- **ASII, the only auto stock under coverage in the automotive sector, has Medium ESG risk, in our view.**
- **While the government policy is positive for ESG in the sector, we think the focus will be on the company's diversification policy.**
- **Maintain a POSITIVE sector view and BUY on ASII as the stock will benefit from gradual economic recovery.**

Medium risk

We think the sector has a Medium ESG risk. Although most automotive sales are still dominated by combustion engine-based vehicles, since 2013 the government has provided tax incentives for low-cost green cars (LCGC) in the form of exemption of tax on sales of luxury goods. LCGCs account for 20% of the industry's annual domestic sales volume.

For ASII, most of its earnings (65-70% of total) are contributed by automotive-related businesses (cars, motorcycles, components and financial services). Another 25-30% earnings are contributed by the heavy equipment and mining divisions, which is mostly from its coal business. Although the earnings breakdown is relatively unchanged from time to time, the good thing is in 2018 ASII acquired a gold asset (Martabe), which is part of its efforts to reduce dependence on coal.

Offset by supportive policy

The government has positive policies for the sector. Firstly, starting in Oct'21 tax on sales of luxury goods for the sector will be based on the emission level, and no longer based on engine size. Secondly, the government targets to achieve 20% of automotive production in 2025 to be hybrid and electricity based. To achieve this target, the government has provided incentives for both producers and consumers.

We think the policies will offset the company's diversification efforts to stay away from coal, of which the progress is still below our expectation. For 1Q21, we estimate around 18% of ASII's earnings were still contributed by coal-related businesses.

Maintain POSITIVE

Maintain our POSITIVE view on the sector and BUY on ASII. We like ASII because the company will benefit from gradual economic recovery. Low interest rates and stable growth will be positive for its automotive businesses. Main risks to our call are prolonged economic weakness and the collapse in commodity prices.

Fig 63: Automotive sector

Ticker	Rating	Price*, IDR	TP, IDR	Upside, %	Market cap, USD m	ESG Score***	ESG Risk Rating***	Controversy Score***	Controversy Rating***	PER**, x	PBV**, x	Yield**, %	ROE**, %
ASII	BUY	4,870	8,000	68.0	13,486	28.4	Medium	2	Moderate	10.6	1.2	3.8	11.5

* Based on closing prices as of 21 July 2021; ** based on 2021 earnings forecasts; *** derived from leading external ESG research and data provider Sustainalytics

Source: Bloomberg,Maybank Kim Eng, Sustainalytics

ESG@MKE

Astra International (ASII IJ)

Isnaputra.iskandar@maybank.com

Risk Rating & Score[1]	Medium risk (28.4)
Score Momentum[2]	+0.2
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 05 Jul 2021)	2

Business Model & Industry Issues

- ASII is taking ESG seriously. It does not only apply high standards on Environmental and Occupational Health and Safety (EHS) practices, but it also tries hard to stay away from non-environmentally friendly business, such as thermal coal. Since five years ago, it has diversified its businesses to non-thermal coal, which we think could lower market concern on ASII's exposure to the sector. Based on 1Q21 earnings, automotive-related contributed 39% to earnings, heavy equipment (mostly coal-related) 29%, CPO 3%, and others 29%.
- Several potential areas for improvements: 1) add female representations in both Board of Commissioners (BoC) and Board of Directors (BoD); and 2) add at least an independent director to the BoD.
- ASII maintains good relationships with its stakeholders via various educational, economic, and social programmes. It aims to create a balance between business interest and social and environmental aspects as part of its ambition to prosper with the nation.

Material E issues

- ASII has developed Astra Green Company (AGC) to monitor the Company's performance on EHS in the workplace. Astra Group does not normally specify targets in terms of costs incurred.
- ASII has implemented Astra Green Energy (AGEn), which covers efficiency programme and energy saving technology implementation. AGEn is based on the ISO 50001 (Energy Management System) and ISO 50002 (Energy Audit).
- In 2019 around 73% of ASII's subsidiaries already obtained Gold and Green awards (the first and second highest) on environmental management from the Ministry of Environment and Forestry.
- In 2019, ASII reduced greenhouse gas emissions within the group by 2.5% YoY per product unit and increased energy efficiency by 2.5% YoY per product unit.
- UNTR has ISO 14001-2015 accreditation on environmental management, which is valid until 2023.

Material S issues

- Astra implements international standard and regulatory compliance in implementing Occupational Health and Safety (OHS). The OHS also applies to ASII's business partners.
- The strategy of social responsibility is implemented based on the Public Contribution Roadmap (PCR), to ensure long-term benefits and to be in line with ASII Group's business strategy. The PCR is done via four pillars: health, education, environment, and entrepreneurship.
- The implementation of CSR is aligned with the conditions and potentials of local communities, and the respective business units. ASII does not set specific costs regarding the calculation of the financial impacts from CSR activities.
- At the end of 2019, 17% of employees were female, up from 12% in 2018.

Key G metrics and issues

- Founded by the Soerjadjaja family, ASII now belongs to Jardine Cycle & Carriage (50.1%),
- GCG practices do not only cover regulations, principles, values, and best practices, but must also be in line with changes. Being of one of the largest business groups in Indonesia, ASII always try to be a role model for corporate governance practices.
- According to Indonesia's corporate law, a company has three bodies: shareholder meeting, BoD and BoC. Shareholder meeting is the company's highest decision-making body.
- BoD runs day-to-day operations of the company and consists of nine members (one female and eight male). There is no independent director on the BoD.
- BoC supervises BoD and is assisted by the Audit Committee, Nomination and Remuneration Committee, and Executive Committee. It consists of nine members (one female and eight male). The Chairman was previously the CEO of ASII. Three of them are independent commissioners, six are related to Jardine, and one is related to Toyota.
- There are no BoC members sitting in the BoD, and vice versa.
- Based on 2Q20 financial statement, shares of the BoC and BoD members at ASII was negligible.
- In 2019, total compensation received by BoC and BoD of ASII and its 175 subsidiaries were c. 6% of earnings. Around 92% were short-term benefits and 8% post-employment and other long-term benefits.
- Several greenfield coal assets acquired during the peak cycle of the coal prices are not producing yet due to their lack of economic viability.
- ASII has invested USD250m in Gojek, one of Indonesia's unicorns. We understand that Gojek is not profitable at this stage, and we think earning visibility is poor due to tight competition.
- PwC has been the auditor of the company for more than 10 years.

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5.2. Banking

- **On top of carrying ESG risk from lending activities, the banking sector is used as a transmission mechanism for government stimulus under Covid-19 relief schemes.**
- **Mitigation of ESG risks have largely been through green financing initiatives and strengthening banks' ESG policies. Nonetheless, clear metrics from regulators are necessary to encourage the sector to manage and disclose ESG integration transparently. ESG reporting has so far emphasized on governance.**
- **In the near term, the sector will still focus on the Covid-19 impact on loan quality. Much remains to be done to address exposure to portfolio-level risks that will arise from climate change and losses from environmental degradation.**

Critical ESG issues in the sector

Indonesian banks face ESG risks from their business activities, which primarily include the risk from lending to the mining and agriculture sectors. Loan exposure to the mining sector has come down from 3.3% in 2015 to 2.3% of the total portfolio. But lending to the agriculture sector increased from 6.5% to 7.4% over the same period. While through plasma schemes, the labour-intensive agriculture sector plays a role in improving social welfare, the environmental risk of their operations remains high. On top of these, Indonesia's banking sector is also used as a transmission mechanism for government stimulus under Covid-19 relief schemes, which prioritize social aspects over shareholder returns in the near term.

Mitigation outlook

Green lending initiatives commenced in earnest in 2015 and we saw significant progress once ESG policies were established with respect to financing the plantation sector. Debtors are required to be registered or have certain certifications e.g. Roundtable Sustainable Palm Oil or Indonesia Sustainable Palm Oil. However, sustainable financing has only reached at most 25% of total lending. Clear and standardized metrics from regulators are necessary to encourage the sector to manage and disclose ESG integration transparently. We also expect more issuance of Sustainability Bonds in the future as an important funding channel for projects that have positive social and environmental impacts.

Sector outlook

In the near term, the banking sector will continue to focus on the Covid-19 impact on loan quality. Given the aggressive provisioning made in 2020, we expect ROE to improve gradually. A swift economic recovery should minimize NPL risk and allow banks to do more to address risks that arise from climate change and losses from environmental degradation. On the other hand, slower-than-expected improvement would dampen loan demand and most likely entail additional NPL risks.

Key calls

- BUY BMRI with TP of IDR7,875, based on FY21-23E average ROE of 14.2% and 1.9x FY21E P/BV. BMRI has relatively lower LAR compared to its SOE peers, with FY21E LLC of 227%. The bank is trading at 1.3x FY21E P/BV.
- SELL BBCA with IDR25,500, based on FY21-23E average ROE of 16.9% and 3.3x FY21E P/BV. BBCA is trading at 3.9x FY21E P/BV. However, we think its declining loan quality, provisioning buffer and ROE

moving towards its peers' average no longer justify such a high premium valuation.

Fig 64: Banking sector – summary of ratings and valuations

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 20A	P/E (x) 21E	P/B (x) 20A	P/B (x) 21E	Div yld (%) 20A	Div yld (%) 21E
BCA	BBCA IJ	50,996	Sell	29,950	25,500	(15)	30.8	25.3	4.5	3.9	1.4	1.7
BRI	BBRI IJ	31,603	Sell	3,710	3,800	2	27.3	15.9	2.6	2.2	2.1	3.7
Bank Mandiri	BMRI IJ	18,370	Buy	5,700	7,875	38	17.2	11.9	1.6	1.3	3.1	4.5
BNI	BBNI IJ	5,899	Buy	4,580	8,200	79	35.1	10.7	1.1	0.7	0.6	2.1
Bank Danamon	BDMN IJ	1,424	Buy	2,110	3,700	75	29.9	6.5	0.7	0.4	1.0	4.7
BTN	BBTN IJ	900	Hold	1,230	1,750	42	13.1	6.8	1.1	0.7	0.0	0.0
BJB	BJBR IJ	822	Buy	1,210	1,950	61	9.0	6.6	1.3	0.9	5.6	7.1

Source: Bloomberg, Maybank Kim Eng

Bank BJB (BJBR IJ)

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Risk Rating & Score[1]	High (38.5)
Score Momentum[2]	-9.1
Last Updated	21 Sep 2020
Controversy Score[3] (Updated: 01 Jan 2000)	0

Business Model & Industry Issues

- BJBR has a relatively low CET1 ratio, at 14.8% as at December 2020, vs. sector average of 22.2%. However, controlling shareholders West Java Provincial and Municipal Government are committed to provide strong support to put BJBR in a better capital position through capital injection so that it can weather the presently volatile economic environment.
- Lending to civil servants and pensioners cover 67% of its portfolio. Only 1.2% of the bank's lending goes to mining and plantation companies.
- The banking sector is being used as a transmission mechanism for government stimulus programmes under the Covid-19 relief schemes, which elevate social priorities over shareholders' returns in the near term.
- BJBR displays no exceptional risks not typical of a big bank for ESG. The fact that the bank's operations are predominantly domestic significantly reduces ESG risks, in our view.

Material E issues

- BJBR refrains from providing credit to projects or businesses that are harmful to the environment. As of 2019, sustainable financing has reached at least IDR2.2t, or 2.3% of its total loan portfolio.
- Paper usage was reduced by 31% YoY in 2020 through document digitalisation in customer transactions, and in the bank's daily operation.
- Electricity usage decreased by 8.1% YoY. BJBR also promotes green work environments by 65 building vertical garden at all branches.
- Efficiency of business trips, trainings, and document dispatching are achieved by utilizing technology such as video conferencing, e-learning, carpooling, and intranet portals.
- BJBR encourage forest conservation and reforestation activities by planting 23,564 trees in 2020 which in turn supports conservation programmes for endangered animals in Indonesia.

Material S issues

- BJBR's code of conduct applies to leaders and employees, and it's based on the following values: synergy, integrity, innovation, professionalism, and spirit for excellence. It also has policies on gratification, procurement and whistleblowing.
- There are 3 female directors (43% of BOD), and 49% of BJBR's employees are female.
- CSR activities cover education, health, religion, public infrastructure, and social welfare improvements programs.
- The bank's community development programme budget realisation in FY19 was IDR112b or 5.2% of its consolidated PBT.

Key G metrics and issues

- BJBR's series A shares are owned by West Java Provincial Government (38.18%), West Java Municipal Government (24.03%), Banten Provincial Government (5.29%), and Banten Municipal Government (7.87%).
- The series A shares gives it shareholders privileges including: 1) the right to approve the following matters: a. amendment to the Articles of Association, b. changes to equity, c. appointment and dismissal of members of the BOD/BOC, d. M&A, consolidation, splits and dissolution, e. the remuneration of the BOD and BOC, f. the use of profits; 2) the right to propose candidates for the BOD and BOC; 3) the right to propose AGM/EGM agenda; 4) the right to request and access company data and documents, with the mechanism for the use of such rights being in accordance with provisions in the Articles of Association, and applicable laws and regulations.
- The BOD is an executive body responsible for the daily operations of BJBR. Meanwhile, BOC is a non-executive shareholder representative body, with the main objective of supervising and monitoring the BOD's activities.
- In 2020, BJBR's BOC comprised of 5 members (all male): 1 independent commissioners (IC) which is the president commissioner, and 4 non-IC.
- The BOD has 7 members (4 male, 3 female): 6 independent directors and the CEO.
- The bank's BOC and BOD's total renumeration for FY20 was IDR60b or 2.8% of its consolidated PBT.
- BJBR has not had any material accounting, tax or regulatory issues in the past 5 years. Additionally, there were no material deals in the past that were against the interest of public shareholders.
  BJBR is audited by RSM Indonesia since 2018, replacing Ernst & Young that had audited the bank for eight years since its IPO in 2010.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; …; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Bank Central Asia (BBCA IJ)

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Risk Rating & Score[1]	Medium (27.2)
Score Momentum[2]	+0.7
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 11 Mar 2001)	2 (Moderate)

Business Model & Industry Issues

- BBCA received a rating of "A" in the MSCI ESG Ratings assessment and ranks #2 out of the top 10 constituents of the FTSE4Good ASEAN Stars Index.
- As part of its commitment to implement sustainable finance, the bank finances environmentally friendly energy conservation and organic agriculture sectors.
- BBCA has the highest CET1 ratio among its domestic peers at 25.9% by YE20. This ratio puts the bank in a strong position to weather the volatile economic environment.
- The banking sector is being used as a transmission mechanism for government stimulus under COVID-19 relief schemes, which elevates social priorities over shareholder returns in the near term.
- BBCA displays no exceptional risks not typical of a big bank for ESG. As the bank's operations are predominantly domestic, this significantly reduces ESG risks, in our view.

Material E issues

- BBCA refrains from providing credit to projects or businesses that are harmful to the environment. As of 2020, sustainable financing has reached IDR127t, or 21.6% of its total loan portfolio.
- It encourages customers to support environmental conservation efforts through e statements, e branches and digital banking solutions. This has resulted in an increase in online channels usage. It has also reduced paper consumption by 22.5% in FY20.
- The bank also promotes energy savings by increasing the usage of motion sensor LEDs and eco-friendly ACs.
- Efficiency of business trips, trainings, and document dispatching are achieved by utilizing technology such as video conferencing, e learning, carpooling, and intranet portals.
- BBCA planted 21,638 trees since 2017 and supports conservation programmes for endangered animals in Indonesia.

Material S issues

- There are 613 female branch heads (57% of total branch heads across Indonesia).
- In 2020, BBCA employed 13 disabled people as outsourced staff working at its digital service centre.
- BBCA cooperates with UNICEF, Indonesia Red Cross, and WWF in CSR activities that focus on education, culture, healthcare, and environment.
- The bank's community empowerment programme budget realization in FY20 was IDR117b or 0.3% of its consolidated PBT.

Key G metrics and issues

- Mr. Robert Budi Hartono and Mr. Bambang Hartono are the ultimate shareholders with a 54.9% stake in BBCA through their 100% ownership of PT. Dwimuria. The Hartono family is also the owner of PT. Djarum, a clove cigarette manufacturer based in Central Java.
- The BOD is an executive body responsible for the daily operations of BBCA. Meanwhile, BOC is a non-executive shareholder representative body, with the main objective of supervising and monitoring the BOD's activities.
- In 2020, BBCA's BOC comprised of 5 members (all male): 3 independent commissioners (IC), and 1 non-IC and the president commissioner.
- The BOD has 12 members (10 male, 2 female): 1 independent director, and 10 non independent directors and the CEO.
- The bank's BOC and BOD's bonus for FY20 was IDR445b or 1.3% of its consolidated PBT.
- BBCA has not had any material accounting, tax or regulatory issues in the past 5 years. Additionally, there were no material deals in the past that were against the interest of public shareholders.
- In 2019, BBCA acquired Bank Royal Indonesia for IDR988b (3.3x 2019 P/BV) from the Soemedi family. This new subsidiary will be focused on SME lending.
- In Sep 20, BBCA also gained OJK's approval to acquire Rabobank Indonesia at a purchase value of IDR643b. It has been approved by shareholders in July's EGM.
- BBCA is audited by PricewaterhouseCoopers since 2017, replacing KPMG that has audited the bank for five years.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Bank Danamon (BDMN IJ))

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Risk Rating & Score[1]	High (35.0)
Score Momentum[2]	+8.5
Last Updated	27 Apr 2021
Controversy Score[3] (Updated: 04 Aug 2017)	1 (Low)

Business Model & Industry Issues

- BDMN has the second highest CET1 ratio among its domestic peers at 24.1% as at December 2020. This ratio puts the bank in a strong position to weather the volatile economic environment.
- BDMN has several debtors engaged in the palm oil industry. One has Indonesian Sustainable Palm Oil certification, and another two have attained Roundtable on Sustainable Palm Oil certification. In total, BDMN's loan exposure to the agriculture and mining sectors makes up about 5% of its loan portfolio.
- The banking sector is being used as a transmission mechanism for government stimulus under COVID-19 relief schemes, which elevates social priorities over shareholder returns in the near term.
- BDMN displays no exceptional risks not typical of a big bank for ESG. As the bank's operations are predominantly domestic this significantly reduces ESG risks, in our view.

Material E issues

- BDMN’s loan exposure to the agriculture and mining sectors make up 5% of its loan portfolio. One of its borrowers in the palm oil industry already has Indonesian Sustainable Palm Oil certification, and another two have attained Roundtable on Sustainable Palm Oil certification.
- BDMN encourages customers to support environmental conservation efforts through e statements, e branches and digital banking solutions.
- The bank also promotes energy savings by increasing the usage of motion sensor LEDs and eco-friendly ACs. This has resulted in electricity efficiencies of 60,000 kWh.
- Efficiency of business trips, trainings, and document dispatching are achieved by utilizing technology such as video conferencing, e-learning, and carpooling.
- BDMN participates in activities such as building hydroponic parks, making infiltration wells, managing waste, improving community environmental facilities and infrastructure.

Material S issues

- BDMN implemented equal employment opportunities to prospective employees as regulated in the Human Capital Policy, and all employees have an equal opportunity to participate in training and development.
- By 2020, there are 2 female directors (25% of BOD).
- CSR activities cover education and social welfare improvements programs by providing financial literacy for students and community.
- BDMN also collaborates with the National Disaster Management Agency, the Indonesian Red Cross, Regional Disaster Management Agency, as well as other response agencies in aiding natural disaster areas.
- The bank’s CSR budget realization in FY20 was IDR5.0b or 0.2% of its consolidated PBT.

Key G metrics and issues

- In 2019, MUFG Bank, Ltd. completed the acquisition of BDMN from Temasek, which makes MUFG the ultimate shareholder with a 94.1% stake. In June 2020, MUFG met the requirement to increase BDMN’s freefloat to a minimum 7.5%.
- The BOD is the executive body responsible for the daily operations of BDMN. Meanwhile, BOC is a non-executive shareholder representative body, with the main objective of supervising and monitoring the BOD’s activities.
- In 2020, BDMN’s BOC comprised of 8 members (7 males, 1 female): 4 independent commissioners (IC), and 3 non-IC and the president commissioner.
- The BOD has 10 members (8 males, 2 females): 1 independent director, and 8 non independent directors and the CEO.
- The bank’s BOC and BOD’s total remuneration for FY20 was IDR74.5b or 3.6% of its consolidated PBT.
- BDMN has not had any material accounting, tax or regulatory issues in the past 5 years. Additionally, there were no material deals in the past that were against the interest of public shareholders.
- In May 2019, BDMN and PT Bank Nusantara Parahyangan (BNP), a member of MUFG, have completed their legal merger process. Following the legal merger, all rights and obligations, as well as assets and liabilities of Bank BNP have, by law, been transferred to BDMN.
- In 2019, BDMN also completed the sale of 70% ownership in Adira Insurance to Zurich Insurance for IDR3.9t. BDMN will continue to work with Adira Insurance, as it remains a minority shareholder and has also entered into a general insurance partnership to distribute Adira Insurance products through the Danamon Group’s distribution network.
- BDMN is audited by PricewaterhouseCoopers since 2017, replacing EY that had audited the bank for five years.

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Bank Mandiri (BMRI IJ)

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Risk Rating & Score[1]	Medium (29.7)
Score Momentum[2]	-0.5
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 03 Nov 2020)	2 (Moderate)

Business Model & Industry Issues

- Loans to commercial segment made up 21% of total portfolio by YE20. This creates additional risks as this is amongst the most impacted segments under the current economic backdrop. Nonetheless, the bank has been able to maintain LAR coverage at 37%, which is the highest among big banks in Indonesia.
- BMRI has a green banking policy related to the lending process. This includes requiring prospective borrowers to submit Environmental Impact Analysis and the results of the company's Performance Rating Program in Environmental Management (PROPER) assessment issued by the Ministry of Environment.
- The banking sector is being used as a transmission mechanism for government stimulus programmes under the COVID 19 relief schemes, which elevates social priorities over shareholders returns in the near term.
- BMRI displays no exceptional risks not typical of a big bank for ESG. The bank's earnings are principally driven by its domestic operations, while offshore branches' contributions are relatively insignificant at this stage. This domestic concentration reduces its overall environment and corporate governance issues, in our view.

Material E issues

- As of 2020, 69% of BMRI's borrowers in the CPO industry are ISPO/RSPO certified. In total, corporate green financing has reached 22% of non-consolidated loan portfolio.
- In order to save the use of fuel, BMRI has implemented policies such as reducing the number of physical meetings across offices, less use of operational cars and replace them with four shuttle buses instead.
- Paper usage is reduced through document digitalization in customer transactions, and in the bank's daily operation.
- Less energy consumption is also achieved by using LED lights and solar panels. These green office initiatives reduced electricity consumption by 7.4% YoY in 2020.
- BMRI installed wastewater treatment which has increased the share of recycled water to 27%.
- BMRI also participates in a reforestation program and promotes conservation programs for endangered animals in Indonesia.

Material S issues

- In total, the bank has 19,856 female employees, or 52% of its total employees.
- Every employee has been given the right to be a member of the Employee Unions by submitting a written request and therefore BMRI is not permitted to prohibit any employee to be or not to be a member of the Employee Unions.
- CSR activities covers education, and social welfare improvements, natural disaster aid, development of public facilities and healthcare programs.
- The bank's community development programme budget realization in FY20 was IDR134b or 0.6% of its consolidated PBT.

Key G metrics and issues

- The government owns 60% of BMRI's series B shares.
- The government also owns one series A share, which gives it privileges including: 1) the right to approve in AGM/EGM on the following matters: a. amendment to the Articles of Association, b. changes to equity, c. appointment and dismissal of members of the board of directors (BOD) and the Board of Commissioners (BOC), d. M&A, consolidation, splits and dissolution, e. the remuneration of the BOD and BOC, f. the use of profits; 2) the right to propose candidates for the BOD and BOC; 3) the right to propose AGM/EGM agenda; 4) the right to request and access company data and documents, with the mechanism for the use of such rights being in accordance with provisions in the Articles of Association, and applicable laws and regulations.
- Shareholders' meeting is BMRI's highest decision-making body. The BOD is an executive body responsible for BMRI's daily operations. Meanwhile, the BOC is a non-executive shareholder representative body, with the main objective of supervising and monitoring the BOD's activities.
- In 2020, BMRI's BOC comprised of 10 members (8 male, 2 female): 4 Independent Commissioners (IC), and 5 Non-IC and the President Commissioner.
- While its BOD comprised of 12 members (10 male, 2 female): 11 Non-ID and the CEO.
- The bank's BOC and BOD's bonus for FY20 was IDR400b or 1.7% of its consolidated PBT.
- BMRI has not had any material accounting, tax or regulatory issues in the past 5 years. Additionally, there were no material deals in the past that were against the interest of public shareholders.
- The bank is audited by Ernst & Young since 2015, replacing PwC that has audited the bank for five years.

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Bank Negara Indonesia (BBNI IJ)

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Risk Rating & Score[1]	Medium (27.5)
Score Momentum[2]	-1.3
Last Updated	04 Mar 2021
Controversy Score[3] (Updated: 22 Jan 2021)	2 (Moderate)

Business Model & Industry Issues

- Loans to medium-income segment made up 12% of its portfolio by YE20. This creates additional risks given this is amongst the most impacted segments under the current economic backdrop. Nonetheless, BBNI has been able to increase LLC to above 200%.
- The bank encourages its corporate debtors in the CPO industry to adopt environmental friendly planting practices. In addition, it is also paying attention to the social aspects of palm oil financing, including mapping plantation areas to avoid an overlap with surrounding communities and conservation areas. This is done to support Indonesia's commitment in developing a sustainable palm oil industry, as well as preventing financial risks that will also impact social and environmental aspects.
- The banking sector is being used as a transmission mechanism for government stimulus programmes under COVID-19 relief schemes, which elevate social priorities over shareholders returns in the near term.
- BBNI displays no exceptional risks not typical of a big bank for ESG. The bank's earnings are principally driven by its domestic operations, while offshore branch contributions are relatively insignificant at this stage. This domestic concentration reduces its overall environment and corporate governance issues, in our view.

Material E issues

- BBNI refrains from giving credit to projects or businesses that are harmful to the environment. As of 2020, corporate green financing reached 25.4% of total loan portfolio.
- The bank promotes environmental friendly operations such as energy and water saving. It uses solar cells '(it has a capacity of 2,200 watts) and wastewater treatment (capacity of 125 m3/day) in its Plaza BBNI BSD branch.
- Paper usage is reduced through document digitalization in customer transactions, and in the bank's daily operation.
- BBNI also participates in land rehabilitation and promotes conservation programmes for endangered animals in Indonesia

Material S issues

- There are 3 female directors (25% of BOD), and 52% of BBNI's employees are female.
- In 2020, BBNI employed 20 disabled people. The bank has also placed 3,234 ATMs for customers with disabilities in the greater Jakarta area. The provision of this Special ATM is part of BBNI's efforts to support people with disabilities.
- CSR activities cover education, and social welfare improvement programmes.
- The bank's community development programme budget realization in FY20 was IDR150b or 2.9% of its consolidated PBT.

Key G metrics and issues

- The government owns 60% of BBNI's series B shares.
- The government also owns one series A share, which gives it privileges including: 1) the right to approve the following matters: a. amendment to the Articles of Association, b. changes to equity, c. appointment and dismissal of members of the BOD/BOC, d. M&A, consolidation, splits and dissolution, e. the remuneration of the BOD and BOC, f. the use of profits; 2) the right to propose candidates for the BOD and BOC; 3) the right to propose AGM/EGM agenda; 4) the right to request and access company data and documents, with the mechanism for the use of such rights being in accordance with provisions in the Articles of Association, and applicable laws and regulations.
- Shareholders' meeting is BBNI's highest decision-making body. The BOD is an executive body responsible for the daily operations of BBNI. Meanwhile, BOC is a non-executive shareholder representative body, with the main objective of supervising and monitoring the BOD's activities.
- In 2021, BBNI's BOC comprised of 10 members (9 male, 1 female): 5 independent commissioners (IC), and 4 non-IC and the president commissioner.
- The BOD has 12 members (9 male, 3 female): 11 non independent directors and the CEO.
- The bank's BOC and BOD's bonus for FY20 was IDR200b or 3.9% of its consolidated PBT.
- BBNI has not had any material accounting, tax or regulatory issues in the past 5 years. Additionally, there were no material deals in the past that were against the interest of public shareholders.
- BBNI has been audited by Ernst & Young since 2016, replacing PwC that had audited the bank for four years.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

ESG@MKE

Bank Rakyat Indonesia (BBRI IJ)

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Risk Rating & Score[1]	Medium (25.3)
Score Momentum[2]	-2.3
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 05 Mar 2019)	2 (Moderate)

Business Model & Industry Issues

- BBRI received a rating of "A" in the MSCI ESG Rating and score 46 in SAM (part of S&P Global) ESG.
- In March 2019, BBRI issued the first Sustainability Bond in Indonesia with Baa2 rating by Moody's and BBB- rating by Fitch. The total value is USD500m with a tenor of 5 years. This is an important funding channel for projects that have both social and environmental impacts.
- In 2020, BBRI reached its 125th year of successfully providing banking and financial services to the micro, small, and medium enterprises (MSMEs) in Indonesia. Risk of government intervention exists in determining lending rates for the subsidized micro (KUR), which constitutes 14.4% of the loan portfolio.
- The banking sector is being used as a transmission mechanism for government stimulus programs under COVID-19 relief schemes which elevates social priorities over shareholders returns in the near term.
- BBRI displays no exceptional risks not typical of a big bank for ESG. That the bank's operations are predominantly domestic significantly reduces ESG risks, in our view.

Material E issues

- Green lending initiatives are carried out by establishing ESG Policy in financing the palm oil industry. Debtors are required to be registered or certified by Roundtable Sustainable Palm Oil (RSPO) or Indonesia Sustainable Palm Oil (ISPO). The same approach applies to financing for other plantation industries, other sectors that require extensive land management and in the manufacturing sector.
- In FY20, energy usage was reduced by 2% YoY through efficiency of business trips, trainings, and document dispatching.
- The bank planted 5,000 seedlings of pine trees in the surrounding areas of the protected Semeru mountain and revitalizing climbing shelters.

Material S issues

- In 2020, BBRI employed 26 disabled people in the bank's Head Office, and 41 in the regional office.
- The bank has 37,354 female employees, or 42% of the 88,184 total permanent employees, contract, and trainees.
- Since 2015, BBRI has succeeded in disbursing a total IDR351.3t in subsidized micro loans (KUR) to more than 11.8 million borrowers throughout Indonesia.
- The bank's CSR budget realization in FY20 was IDR264b or 1.0% of its consolidated PBT.
- CSR activities include renovation/construction schools, religious' facilities, and special needs schools across Indonesia.

Key G metrics and issues

- The government owns 56.75% of BBRI's series B shares.
- The government also owns one series A share, which gives it privileges including: 1) the right to approve the following matters in an AGM/EGM: a. amendment to the Articles of Association, b. changes to equity, c. appointment and dismissal of members of the BOD and the BOC, d. M&A, consolidation, splits and dissolution, e. the remuneration of the BOD and BOC, f. the use of profits; 2) the right to propose candidates for the BOD and BOC; 3) the right to propose AGM/EGM agenda; 4) the right to request and access company data and documents, with the mechanism for the use of such rights being in accordance with provisions in the Articles of Association, and applicable laws and regulations.
- Shareholders' meeting is BBRI's highest decision-making body. The BOD is an executive body responsible for BBRI's daily operations. Meanwhile, the BOC is a non-executive shareholder representative body, with the main objective of supervising and monitoring the BOD's activities.
- In 2021, BBRI's BOC comprised of 10 members (8 male, 2 female): 6 Independent Commissioners (IC), and 3 Non-IC and the President Commissioner.
- While its BOD comprised of 12 members (10 male, 2 female): 11 Non-ID and the CEO.
- The bank's BOC and BOD's bonus for FY20 was IDR410b or 1.5% of its consolidated PBT.
- BBRI has not had any material accounting, tax or regulatory issues in the past 5 years. Additionally, there were no material deals in the past which were against the interest of public shareholders.
- BBRI is audited by Ernst&Young, which has audited the bank for at least the past ten years.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Bank Tabungan Negara (BBTN IJ)

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Risk Rating & Score[1]	Medium (26.6)
Score Momentum[2]	+0.3
Last Updated	22 Apr 2020
Controversy Score[3] (Updated: 01 Jan 2000)	0

Business Model & Industry Issues

- BBTN has the lowest CET1 ratio among its SOE peers, at 13.6% as at YE20. This relatively modest capital position places the bank in a weaker position to weather the presently volatile economic environment.
- Mortgages and housing construction loans cover 91% of its portfolio. Only 0.03% of the bank's lending goes to mining and plantation companies.
- The banking sector is being used as a transmission mechanism for government stimulus programmes under the Covid 19 relief schemes, which elevate social priorities over shareholders returns in the near term.
- BBTN displays no exceptional risks not typical of a big bank for ESG. The fact that the bank's operations are predominantly domestic significantly reduces ESG risks, in our view.

Material E issues

- BBTN requires environmental impact assessment in mortgage approvals, as well as the requirement of green areas with at least one tree per house built under BBTN financing.
- The bank also promotes environmentally friendly initiatives such as energy and water saving. At its head office, these initiatives helped to reduce electricity usage by 66% YoY and water usage by 24% YoY in 2020.
- Paper usage is reduced through document digitalization in customer transactions, and in the bank's daily operations.
- Employees are encouraged to use public transportation to commute to and from the office to reduce greenhouse gas emission. The bank requires its fleet of vehicles to use high octane fuel as it is more environmentally friendly.

Material S issues

- BBTN's code of conduct applies to leaders and employees, and it is based on the following values: synergy, integrity, innovation, professionalism, and spirit for excellence. It also has policies on gratification, procurement, and whistleblowing.
- The bank has 5,103 female employees or 45% of the 11,224 total employees in 2020.
- CSR activities cover education, culture, environmental conservation, social welfare improvement programmes, and support of community religious activities.
- CSR budget realization in FY20 was IDR18.2b or 0.8% of PBT.

Key G metrics and issues

- The government owns 60% of BBTN's series B shares.
- The government also owns one series A share, which gives it privileges including: 1) the right to approve the following matters: a. amendment to the Articles of Association, b. changes to equity, c. appointment and dismissal of members of the BOD/BOC, d. M&A, consolidation, splits and dissolution, e. the remuneration of the BOD and BOC, f. the use of profits; 2) the right to propose candidates for the BOD and BOC; 3) the right to propose AGM/EGM agenda; 4) the right to request and access company data and documents, with the mechanism for the use of such rights being in accordance with provisions in the Articles of Association, and applicable laws and regulations.
- Shareholders' meeting is BBTN's highest decision-making body. The BOD is an executive body responsible for the daily operations of BBTN. Meanwhile, BOC is a non-executive shareholder representative body, with the main objective of supervising and monitoring the BOD's activities.
- In 2020, BBTN's BOC comprised of 6 members (all male): 2 independent commissioners (IC), and 3 non-IC and the president commissioner.
- The BOD has 8 members (7 male, 1 female): 7 non-independent directors and the CEO.
- The bank's BOC and BOD's bonus for FY20 was IDR9.4b or 0.4% of its PBT. The nominal amount is lower than FY19 bonus of IDR40b (9.7% of PBT) due to fewer member of BOC and BOD.
- BBTN has been audited by Ernst & Young since its IPO in 2009.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

5.3. Cement

- **The sector has relatively moderate ESG risks, with ESG risks related to environmental and social impact of production plants, as well as workers' health and safety.**
- **In our view, cement companies under our coverage have taken positive steps to implement stellar ESG practices.**
- **Maintain POSITIVE view on the sector with SMGR being our Top Pick.**

Medium risk

According to Sustainalytics, the sector has a medium risk rating. The main issue for the sector is the carbon emission generated from the manufacturing process and the usage of coal as the main source of energy. However, we think cement companies are already aware of the issues and as such have been putting effort into reducing emission. We think the efforts could accelerated once the government clarifies its plan to impose carbon tax on gas emission.

It has started

To tackle environmental issues, cement companies have taken steps to reduce carbon emission and coal usage. The former is done by installing equipment that will reduce emission. Meanwhile, for the latter, cement companies have been diversifying their source of energy to alternative fuels. We think the impact of fuel diversification will be significantly felt over the next five years. To maintain relationships with surrounding communities, cement companies have allocated a portion of their profits (2020: 1-5%) for CSR programmes.

Maintain POSITIVE view

We maintain a POSITIVE stance on the sector as it will benefit from gradual economic recovery and low interest rates. We believe demand for cement is resilient, as shown by strong demand despite the pandemic. We prefer SMGR in the sector due to its diverse locations, which will benefit the company as we expect the economic recovery to occur across the country. Key risks to our call are: 1) persistently high coal prices (c.20% of costs); and 2) unfavourable government policy on carbon tax.

Fig 65: Cement sector – summary of ratings and valuations

Stock	Rating	Share price (IDR)	TP (IDR b)	Market Cap (USDm)	PER (x) FY21E	PER (x) FY22E	PBV (x) FY21E	ROE (%) FY21E	Div. Yield (%) FY21E	Risk Rating	Risk Category	Controversy Score
Indocement	BUY	10,375	17,500	2,705	20.7	18.0	1.7	8.3	9.4	28.1	Medium	2
Semen Indonesia	BUY	8,475	14,100	3,471	18.6	15.5	1.4	7.7	1.3	28.0	Medium	2
Industry Average					**19.7**	**16.8**	**1.6**	**8.0**	**5.4**	**28.1**	**Medium**	

Source: Bloomberg, Sustainalytics, Maybank Kim Eng

Indocement (INTP IJ)

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Risk Rating & Score[1]	Medium risk (28.1)
Score Momentum[2]	+2.2
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 13 Sep 2017)	2

Business Model & Industry Issues

- We think INTP has put serious efforts into tackling ESG issues not only by putting the right policies in place but also by continuously reducing emissions and consumption of fossil fuels and replacing them with alternative ones. For the latter, INTP also engages the surrounding community via community development programmes.
- On the Governance front, we notice that INTP is planning to go beyond requirements by adopting higher and international standards. For instance, the statutory minimum number of independent commissioners is 33% of total, but the higher standard suggests 50%.
- Overall, we think serious ESG efforts, along with INTP's balance sheet and strong cash flows should provide limited downside to valuations.

Material E issues

- Majority of INTP's main process filters are electrostatic precipitators (ESP), which is an older technology with higher particle emissions. INTP has a master plan to reduce dust emission by converting ESP to Fabric Bag house filters by 2022.
- Four out of nine factories have implemented online real-time emissions monitoring, directly connected to the Ministry of Environment and Forestry. The ministry has appointed INTP as a role model on this front.
- Proportion of fossil fuels to total fuels has decreased to 93% from 2015's 98% and is replaced by alternative fuels.
- INTP has received ISO 14001:2015 on Environment Management System. In 2019, its Citeureup, Cirebon, and Tarjun factories received Green Industry Certificate from the Ministry of Industry. The Cirebon factory has also managed to get Green PROPER, which indicates its environmental management beyond requirements.

Material S issues

- BoD set up two committees on safety and ethics to help it with making policies and procedures related to the company's Occupational Health & Safety and Environment and implementation of Code of Conduct. It also has policies in place on gratification, anti-corruption, and whistleblowing.
- INTP engages the community at every plant. In 2017-19 it developed 293 "local heroes", c. 7.8% of INTP's workforce.
- At the end of 2019, most employees (94%) are male due to the physical nature of the cement business. No reports on below-minimum wage payments.
- Number of work accidents reached 22 in 2019, down from 2018's 42 and 2017's 45.
- INTP allocated 1.1-1.8% of net profit in the past two years to community development funds.
- INTP has certification on Occupational Health and Safety Management System from the Ministry of Manpower.

Key G metrics and issues

- Until the end of 2019, INTP had performed assessment of GCG implementation for the Board of Commissioners and (BoC) and Board of Directors (BoD) conducted by the Indonesian Institute for Corporate Directorship (IICD). The assessment is based on the criteria set by ASEAN Corporate Governance Scorecard (ACGS). The scoresheet suggests 80% of INTP's GCG practices have been following the criteria.
- BoD runs day-to-day operations of the company. It consists of nine members (all male), one of them (11%) is an independent director.
- BoC supervises the BoD's activities and consists of six members (all male). Two of them (33%) are independent commissioners. There is no BoD member sitting in the BoC and the other way around. In performing its functions, duties, and responsibilities, the BoC is assisted by Audit Committee and Nomination and Remuneration Committee.
- No disclosure on shares of the BoC and BoD members' in the company.
- In 2019 total remuneration of the BoC and BoD was c.4.2% of net profit, down from 2018's 7.4%. The renumeration consists of salary, allowances, and facilities, but there is no percentage breakdown of each component.
- There were no material related party transactions that were negative to minority interests in the past. INTP did not have any major M&A deals in the past 10 years.
- Ernst & Young has been the auditor of the company for more than 10 years.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Semen Indonesia (SMGR IJ)

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Risk Rating & Score[1]	Medium risk (28.0)
Score Momentum[2]	-4.3
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 14 Jun 2019)	2

Business Model & Industry Issues

- SMGR has taken serious efforts to implement its Sustainable Development Goals (SDGs) since 2009. Within 10 years, SMGR has shown significant progress in reducing its carbon emissions and increasing the use of alternative fuel, putting it on track to achieve its targets in 2024. Its wide presence across the country also helps to empower the local communities via its partnership programmes, especially in the outer islands.
- Being an SOE, SMGR has higher requirements and responsibilities with regards to serving the local communities and conserving the environment. This is shown by its higher allocation to its CSR budget, of about 6% of its net profit (peers average: 1.5%).
- Overall, we believe SMGR's significant efforts and commitment towards ESG initiatives will ensure the broad sustainability of its business as the nation's largest cement company with market share of c.53% post acquisition of Holcim Indonesia (SMCB IJ) in 2019.

Material E issues

- In 2018, SMGR obtained 14001 ISO certification. This is an international standard which requires a structured management approach towards environment sustainability.
- SMGR has managed to reduce its carbon emission by 10%, to 634kg CO_2/ton cement compared to 708kg CO_2/ton in 2010. It has also increased, by 65% since 2010, the usage of recycled waste (1.8m ton) as alternative fuel. These initiatives will continue as part of its sustainability goals.
- Numerous initiatives have been conducted to conserve the natural environment through more environmentally-friendly mining, with greenbelt areas surrounding the mine and reclamation and revegetation of post-mine sites. SMGR also uses industrial waste and biomass as alternative fuels and is also pursuing efficiencies in water usage and conservation of flora and fauna in the post-mine areas, which are repurposed for agriculture and aquaculture.

Material S issues

- Due to the nature of the cement business, most employees (90%) are male in 2019. There were no reports of below minimum wage employment.
- With strong enforcement of health and worker safety awareness, SMGR reported a consistent declining trend in lost time injury frequency rate (LTIFR), to 1.16 in 2019, from 1.28 in 2018, and zero fatality incidents for its employees and contractors in 2019.
- Within ten years of its implementation, SMGR has nearly achieved its target to involve 73,000 people which receive the benefit of its partnership program in cement distribution. The program helps to empower the economies of its local communities from entrepreneurial development.
- As one of the realisations of its commitment in its SDGs, SMGR allocated IDR153b for its CSR program in 2019 (6.6% of FY19 net profit). The program involves local communities.

Key G metrics and issues

- Being an SoE, SMGR belongs to the Government of Indonesia (GoI), which owns SMGR directly via 1,000 series A shares and controls 51.01% of series B shares.
- Through the series A shares, the GoI has four main authorities namely: (1) appointment of Board of Commissioners (BoC) and Board of Directors (BoD); (2) change of capital structure and use of profits; (3) change of articles of associations; and (4) M&A and divestment.
- The BoD and BoC consist of seven members each. Two of the BoC members are independent commissioners. No BoC members sit on the BoD, and vice versa.
- Every year, there is a minimum of two meetings, namely the BoC meeting and the BoC coordination meeting with the BoD. In 2019, there were 12 joint meetings of the BoC and BoD.
- The total remuneration for the BoC and BoD was c.5% of SMGR's FY19 net profit. This is relatively in-line with peers' average.
- In its 2019 AGM, SMGR changed its external auditor to PWC, from Deloitte, previously. The reason why SMGR replaced its external auditor to PWC was not stated.
- According to local media, the Corruption Eradication Committee (KPK) is investigating a corruption case at Perusahaan Gas Negara (PGAS IJ), when SMGR's current CEO, Mr. Hendi Prio Santoso, was serving as CEO. He was re-appointed as SMGR's CEO at the AGM in May'20.
- For the first time in history in Jan'15, President Joko Widodo instructed all SOE cement producers to cut the cement prices.
- In 2019, SMGR completed the acquisition of an 80.6% stake in Holcim Indonesia (SMCB IJ) from LafargeHolcim for enterprise value of USD1.75bn. For the acquisition, SMGR has secured an USD1.28bn syndicated loan. SMCB is the third largest cement player in the country, with c.14% market share (based on capacity). The transaction implies EV/Capacity of USD117/tonne which is similar to SMGR's valuation. Post the acquisition, SMGR's domestic cement market share increased to c.54% from 38%.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

5.4. Consumer retailing

- **The retailers under our coverage have mostly low to medium ESG risks.**
- **The overall ESG implementation appears satisfactory, but there is room for improvement within corporate governance.**
- **Maintain a NEUTRAL sector view, with ACES and MAPI as our TopPicks.**

Medium risk: supportive policy

The retailers in our coverage generally have low ESG risks. Overall, ESG implementation is acceptable, especially with respect to the environment. The retailers and their suppliers have played active roles to promote the green economy. Also, we are positive on the companies' compliance with the local government's zero plastic bag campaign in Jakarta, leading to the use of biodegradable plastic bags in most stores (c.26-73% of total stores).

Potential to improve G aspect

We believe there are opportunities for the retailers to improve their ESG practices, mainly within the governance aspect. While the companies have promoted gender equality and occupational safety, we believe there is a need to nurture talent and establish more boards with a higher number of independent professionals in the long run.

In our view, this will improve the market's perception towards the governance aspect. In terms of this , MAPI has been leading vis-à-vis its peers as it attained a gender equality certification from Economic Dividends for Gender Equality (EDGE) in 2019 and none of the members on the BoC and BoD are affiliated with the controlling shareholder.

Maintain NEUTRAL view

Maintain NEUTRAL view on the sector. We think consumer discretionary plays will outperform staples as the economy recovers given their exposure to the mid-upper income segment of the population. ACES and MAPI are our preferred retailers to ride the expected recovery in 2021.

Fig 66: Consumer retailing – summary of ratings and valuations

Stock	Rating	Share Price, IDR	TP, IDR	Market Cap, USD m)	PER**, (x)	PER**, (x)	PBV**, (x)	ROE**, (%)	Div. yield**, (%)	Risk rating*	Risk category*	Controversy score*
ACES	Buy	1,390	1,950	1,645	21.3	19.3	4.1	20.4	2.0	18.4	Low	na
LPPF	Sell	2,000	500	387	14.8	12.3	3.6	35.3	2.0	18.7	Low	na
MAPI	Buy	630	950	722	20.9	11.6	1.8	8.9	1.0	22.0	Medium	na
RALS	Buy	590	950	289	13.6	9.7	1.1	8.3	3.4	20.1	Medium	na
Simple Average					**14.1**	**10.6**	**2.1**	**14.6**	**1.7**	**19.8**	**Low**	

* Derived from leading external ESG research and data provider Sustainalytics; ** based on 2021 earnings forecasts

Source: Bloomberg, Sustainalytics, Maybank Kim Eng

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ACE Hardware (ACES IJ)

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Risk Rating & Score[1]	18.4
Score Momentum[2]	na
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 1 Jan 2000)	0 - No reported incidents

Business Model & Industry Issues

- The company has been proactive in improving the E aspect of its ESG drive primarily by ensuring its supply chain activities are environmentally responsible and engaging ESG-compliant suppliers.
- Meanwhile, social aspects are visible with the company's initiative to embrace local sourcing of supplies (mostly home furniture) from SMEs under the Pendopo brand which is available in most of its large format stores (95% of the total stores).
- While many related parties of the company's main shareholders are actively involved in the company's management, ACES has implemented a whistleblowing system since 2013, in order to prevent any illegal activities and conflict of interest with its shareholders. There is a need for the company to nurture talent and strive to have a more professional board in the long run. This will improve the market perception towards the G aspect of its ESG policies.

Material E issues

- In 2019, ACES started to source its merchandise from ISO-certified suppliers. As such, ACES has 716 SKUs (c. 1.1% of the total SKU) that meet their ESG standard. Merchandise is sourced from 18 suppliers certified with ISO 14001 for environmental management. There is no disclosure on the target number of ESG-certified SKUs.
- ACES enforces energy efficient and emission control policies by: 1) installing LED lights in all of its stores; 2) discouraging the use of paper for office-related purposes; and 3) eliminating the use of plastic bags in all of its Jakarta stores (c.26% of total stores), which is in line with the local government's policy of zero use of plastic in the city.
- The company has a Clean Environment Programme, aimed at raising awareness of saving energy. ACES distributed 25,000 LED lamps and 1,000 rechargeable batteries since September 2019 to external stakeholders.

Material S issues

- The proportion of male-to-female in the workforce was 69%:31% in 2019. No female representation on the BoC while one of four (25%) BoD member is female. ACES adheres to the local minimum wage regulation.
- ACES enforces the Occupational Health and Safety System. In 2019, there was no report of accidents in its workplace.
- ACES actively provides training for its employees. In 2019, training programs were provided for 15,504 employees (both permanent and contract), c.87% of total.
- ACES has empowered local SMEs by sourcing products from them for their Pendopo brand since 2011. The Pendopo brand is now available in 95% of ACES' stores.
- In 2019, CSR-related expenses accounted for c.0.17% of total net profit.

Key G metrics and issues

- There are no board of committee (BoC) members on the board of directors (BoD). The BoC consists of four members, and two of them (50%) are independent commissioners. The BoD consists of four members.
- The major shareholder of ACES is PT Kawan Lama Sejahtera that has a 60% stake in the company in 2019. While PT Kawan Lama Sejahtera acts as one of ACES suppliers, the brand and operating license of ACE Hardware is owned by ACES.
- The President Commissioner, Kuncoro Wibowo, and Commissioner of ACES, Ijek Widyakrisnadi, are related to the President Director of ACES, Prabowo Widya Krisnadi, and Director of Company, Tarisa Widya Krisnadi.
- The President Director of PT Omni Digitama Internusa (a subsidiary of ACES for its online platform in which ACES has a 30% stake), Teresa Wibowo, is related to The President Commissioner of ACES.
- Direct ownership of shares by the BoC members accounted for less than 0.01%.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2019, the joint meetings of BoC and BoD were held five times.
- In 2019, total remuneration of the BoC and BoD accounted for 4.3% of net profit.
- RSM International has been the auditor of the company since the IPO in 2007.
- In 2019, the company sold a plot of land (5,955 sqm) to PT Graham Makmur Lestari, a related party, for USD1.1m. The transaction is considered immaterial and did not require approval from minority shareholders.
- In 2019, RPTs accounted for 1.42% of total sales.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Matahari Department Store (LPPF IJ)

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Risk Rating & Score[1]	18.7
Score Momentum[2]	+2.3
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 23 Dec 2013)	0 - No reported incidents

Business Model & Industry Issues

- The E aspect of ESG implementation looks good with LPPF's "Go Green" initiatives. The initiative discourages the use of paper and plastic. The company has successfully enforced the use of LED lighting and bio-degradable shopping bags and product packaging for all of its stores since 2019.
- LPPF has a policy to hire locals for its store staff (c.81% of total employees). Still, two of its BoC (40%) and one of its BoD (25%) are foreigners. Also, there is no female representation in the BoC and BoD. We see an opportunity for LPPF to nurture local talent and increase female participation in its board to improve the S aspect of ESG.
- While all LPPF's directors are professionals, there has been a high turnover in its BoD over the last three years. Meanwhile, LPPF's free float is high at 78%. But the Riady family, with their indirect ownership of 18% in LPPF has significant control over it.

Material E issues

- In 2019, LPPF switched to LED lighting for its stores and warehouses. The initiative yielded a 50% reduction in electricity consumption as well as annual savings of c.35 GWh electricity use and c.24k tons of CO2 emissions every year.
- In 2011, LPPF switched to biodegradable plastic bags. Now, all of LPPF's stores use cassava-based shopping bags which are 100% biodegradable.
- The company appoints third party partners to handle its waste management and ensures that these partners comply with the prevailing regulations sets by Ministry of Environment.

Material S issues

- Balanced ratio of male-to-female in the workforce, at 42%:58% in 2019. No female representation in the BoC and BoD. LPPF adheres to the local minimum wage regulation.
- LPPF enforces the Occupational Health and Safety system, in compliance with the prevailing safety regulations. LPPF also partners with SOS international to provide regular "First Aid" training to its staff. In 2019, there were no reports on work-related accidents in LPPF's stores and distribution centres.
- LPPF provides staff training (c.65% of total employee) to build competency and skills. In 2019, employee training expenses accounted for 0.23% of total net profit.
- LPPF has a Community Development Program (CDP) that provides scholarships and financial assistance for educational purposes, regular humanitarian initiatives, and donations to social institutions. In 2019, CSR-related expenses accounted for 0.37% of total net profit.

Key G metrics and issues

- The company's business operations are managed by the BoD, which are supervised by the Board of Commissioner (BoC), and assisted by an independent audit committee. There are no BoC members on the BoD. The BoC consists of five members, two of which (40%) are independent commissioners. The BoD consists of four members.
- The single largest shareholder of LPPF is PT Multipolar (MLPL IJ, NR), a Riady family affiliated entity. Although MLPL controls only 18% of LPPF, three members of the BoC (75%) and two of the BoD (50%) are affiliated with other companies owned by the Riady family.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2019, the joint meetings of the BoC and BoD were held nine times.
- In 2019, total remuneration of the BoC and BoD accounted for 3.6% of the net profit. PwC has been the auditor of the company for the last 10 years.
- In 2010, Asia Color Company Limited (ACC), a JV between MLPL (20%) and CVC (80%), acquired 90.7% of LPPF stake from MPPA and 7.2% from Pacific Asia Holding (97.9% in total). ACC had fully divested its stake in LPPF to the public and MLPL in 2013-2016.
- LPPF invested IDR770b for a 19.6% stake in e-commerce platform MM.com (related party) in 2016-2017. Following the failure of the platform, LPPF fully impaired the investment in 2018 (c.80% of net profit). In 2018, LPPF invested a total of IDR500b in its wholly-owned logistics subsidiary for trucking and logistics centre in West Java.
- In Nov'20, LPPF invested IDR549b for a 16% stake in NOBU bank from IAP (its shareholder). NOBU is an affiliated entity.
- LPPF enters into recurring related-party transactions, for rental arrangements (c.8.1% of total rental expenses in 2019) and other operational activities. In 2019, related-party transaction accounted for c.3.9% of total operating expenses.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Mitra Adiperkasa (MAPI IJ)

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ESG@MKE

Risk Rating & Score[1]	22.0
Score Momentum[2]	+1.5
Last Updated	29 Apr 2021
Controversy Score[3] (Updated: 01 Jan 2020)	0 - No reported incidents

Business Model & Industry Issues

- MAPI has a strong commitment to achieve the United Nation's Sustainable Development Goals (SDGs) by enforcing ESG-driven practices across all business activities, promoting a diverse and inclusive workplace, implementing strict waste management, and supporting health and wellness of all of the stakeholders.
- The environment and social aspect of MAPI's business appears in line with ESG priorities given the company's active engagement with its business partners to achieve related best business and operational practices.
- MAPI completed several restructurings in the past in order to streamline its business operations and achieve higher profitability. Meanwhile, MAPI's related-party transactions are immaterial.
- While none of the BoC and BoD are affiliated with the controlling shareholder (i.e. these are 100% professional boards), we note that the total remuneration of MAPI's BoC and BoD are high at 1.0% of sales in 2019 vs. consumer peers at 0.1-0.5%.

Material E issues

- MAPI uses energy-saving lights in all of its stores and offices in 2018. This has reduced the utilities expense to 1.4% of sales in 2019, from 1.5% in 2018.
- Inditex, MAPI's main business partners (c. 11% of MAPI's sales), aims to use 100% sustainable and recyclable materials (i.e. cotton, polyester, and linen) for all of its products by 2025.
- Since 2015, MAPI has also enforced Inditex's Green-to-Pack program to minimize packaging waste by using FSC-certified, recyclable boxes and plastic. By 2020, Inditex's Green-to-Pack program aims to remove the use of plastic bags in all brands and zero waste in the entire supply chain.
- MAPI has stopped the use of plastic bags for its packaging in Jakarta (c.73% of total stores) since July 2020. Starbucks Indonesia promotes the use of reusable cups and has replaced plastic straws with paper-based in February 2020.

Material S issues

- MAPI attained gender equality certification by Economic Dividends for Gender Equality (EDGE) in 2019. High gender diversity with 58% of male and 42% female employees in 2019. Two out of five (40%) BoC members are female. MAPI adheres to the local minimum wage regulation.
- MAPI enforces ISO standard 22000 for Food Safety Management System. In 2019, there were no reports on food safety issue in MAPI's F&B business unit.
- MAPI implements the Occupational Health and Safety Management System to guarantee the safety of all employees in carrying out their duties and responsibilities.
- MAPI launched MAP Retail School in 2016, the first government-accredited retail school in Indonesia, actively providing an access to character development education for underprivileged children and raising the retail education standard in Indonesia.

Key G metrics and issues

- Business operations of the company are run by the BoD, which are supervised by the BoC, assisted by an independent Audit Committee. There are no BoC members sitting in the BoD.
- The BoC consists of five members, and two of them (40%) are independent commissioners. The BoD consists of seven members. The BoC and BoD members have no affiliations with the controlling shareholders of MAPI. Meanwhile, the ultimate shareholder of MAPI is Sjamsul Nursalim Family.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2019, the joint meetings of BoC and BoD were held three times.
- In 2019, total remuneration of the BoC, the BoD, and key personnel of MAPI and its consolidated subsidiaries were c.1.0% of sales, higher than the consumer peers at 0.1%-0.5%.
- EY has been the auditor of the company for more than 15 years.
- In 2016, MAPI spun off its four F&B subsidiaries and five brands under MAP Boga (MAPB IJ), wholly-owned holding company. In 2017, MAPI conducted an IPO of MAPB at USD256m market capitalization or P/E 34.6x, to support the new store expansion. In 2017, MAPI spun off MAP Active (MAPA IJ), wholly-owned holding company. In 2018, MAPI conducted an IPO of MAPA at USD418m market capitalization or P/E 18x, to strengthen its working capital and deleverage its balance sheet.
- In July 2020, MAPI entered into an affiliated share sale and purchase agreement of its stake in MAP Active Adiperkasa Thailand (MAAT) to Athletica International Holding (AIHP) for USD3.2m. Both MAAT and AIHP are the subsidiary of MAPI. The transaction was considered immaterial and hence does not require an approval from minority shareholders.
- In 2019, related-party transactions accounted for 0.56% of total sales.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Ramayana Lestari (RALS IJ)

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Risk Rating & Score[1]	20.1
Score Momentum[2]	-0.5
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 01 Jan 2000)	0 - No reported incidents

Business Model & Industry Issues

- RALS aligns its ESG practices with the ISO standard 26000 for corporate, social and environmental responsibility.
- As one of the largest department and supermarket stores, RALS strives to improve the E aspect of the ESG implementation by reducing plastic use and waste. By 2025, the company aims to eliminate the use of plastic bags and fully convert to recyclable shopping bags for all of its stores.
- RALS' engagement with stakeholders looks decent via its community development programs, provision of regular charity events and training for the community and its employees. Further, RALS employs local talents for its management and staff.
- While the related parties of the main shareholders of RALS are dominant in its BoC, RALS has a whistleblowing system in order to prevent any illegal activities and conflict of interest vis-a-vis its minority shareholders.

Material E issues

- RALS has supported the government's initiative to reduce the use of plastic bags since 2017. As a result, the use of plastic bags reduced 73% to 4.5m units in 2019. Plus, RALS has stopped the use of plastic bags for its packaging in Jakarta (c.32% of total stores) since July 2020.
- RALS has a power saving policy where the company adjusts room temperatures and the operation of escalators and elevator according to footfall. In 2019, RALS replaced its store lighting with energy-saving LED bulbs. As such, electricity usage and energy costs dropped 11% in 2019.
- RALS' waste management system complies with the prevailing regulations. The company recycles and reuses dry waste from box packaging. Moreover, RALS requires all of its fashion goods suppliers to have SNI certification to ensure products in its stores are produced in accordance with good manufacturing practices.

Material S issues

- Proportion of male-to-female in the workforce was balanced, at 41%:59% in 2019. No female representation on the BoD while 1 out of 5 of the BoC members is female. RALS adheres to the local minimum wage regulation.
- RALS enforces the Occupational Health and Safety system, in compliance with the prevailing safety regulation. No reports on work-related accidents in 2019.
- Since 2016, RALS has supported the government's social program for students by accepting payment with the government-issued social cards in Jakarta (c.32% of total stores).
- RALS provides regular job trainings for store staff to improve essential skills for their career development. In 2019, RALS held 11 batches of various trainings with 6,500 participants (c.79% of total employee).
- RALS actively organizes charity events for the surrounding community. Also, the company has an employee welfare program by providing cash funding for home renovation. In 2019, the program has covered the employees in West Java and NTT (c.35% of total employees).

Key G metrics and issues

- The company's business operations are managed by the Board of Directors (BoD), which are supervised by the Board of Commissioners (BoC), and assisted by an independent audit committee. There are no BoC members on the BoD.
- The President Commissioner, Paulus Tumewu, is also indirect shareholder of Ramayana Makmur Sentosa that has a 58.8% stake in RALS. In the past, he had a personal income tax case with the government, for which he has already settled.
- One member of the BoC, Jane Melinda Tumewu, is related to the President Commissioner while all of BoD members are professional and have no affiliation with the major shareholders.
- President Commissioner and President Director of RALS collectively own 7.3% stake in RALS as at June 2020.
- The BoC consists of six members, and two of them (33%) are independent commissioners. The BoD consists of five members.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2019, the joint meetings of the BoC and BoD were held six times.
- In 2019, total remuneration of the BoC and BoD accounted for 4.6% of net profit.
- EY has been the auditor of the company for the last 10 years.
- In 2014, RALS entered an agreement with SPAR International (SPP SJ, NR) for the use of SPAR trademark and operational system for its supermarket business. As such, RALS paid an annual royalty to SPAR (c.0.2% of sales). In 2019, RALS terminated the agreement.
- RALS entered into long-term agreement with PT Jakarta Inti Land (JIL), a related party for the rental of 38 stores (c.32% of total stores) and its warehouse. In 2019, related-party rental accounted for c.14% of total operating expenses.
- Since 2005, RALS has a high cash balance (c.30-40% of total assets) and dividend payout ratio at 50-60%.

[1] ***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2] ***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3] ***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

5.5. Consumer staples

- **In our view, consumer companies in our coverage have high to severe ESG risks.**
- **ESG concerns mainly centre around environmental and governance issues.**
- **Maintain a NEUTRAL sector view with ICBP as our Top Pick.**

High ESG risks; environmental risks dominate

The consumer staples companies in our coverage have mostly high to severe ESG risks, in our view. We believe the environmental risks dominate. As the manufacturing of consumer goods involves extensive use of natural resources, we think the concerns centre around the sourcing practices of the companies we cover.

Meanwhile, the social aspect of ESG implementation looks acceptable with multiple initiatives from the companies to address gender equality, community development, and safety of its workers. In terms of corporate governance, we note two main issues: 1) active involvement by related parties in the BoD and BoC; and 2) high dependence on related parties in operations.

Responsible sourcing and lower RPT to reduce ESG risks

We see a need for the companies to align their raw material procurement process with internationally accepted practices, and to address the environmental risks. For instance, UNVR imposes its Sustainable Agriculture Code (SAC) on its suppliers to achieve eco-responsible raw material sourcing and zero biodiversity damage. The Ministry of Environment also encourages consumer companies to improve their environmental practices with the prevailing regulations.

To address the governance issues of ESG implementation, we believe the companies with high related-party transactions (RPTs) need to diversify their supplier and distribution network to: 1) lower operational risks; and 2) reduce concerns for minority shareholders as it may impact valuations.

Maintain NEUTRAL view

Maintain NEUTRAL view on the sector with ICBP as our Top Pick. We remain selective and prefer names with a strong brand and pricing power to buffer the potential negative impact from the economic slowdown and rising soft commodity prices.

Fig 67: Consumer staples – summary of ratings and valuations

Stock	Rating	Share Price, IDR	TP, IDR	Market Cap, USD m	PER**, x	PER**, x	PBV**, x	ROE**, %	Div. yield**, (%)	Risk rating*	Risk category*	Controversy score*
GGRM	Buy	37,400	50,500	4,966	9.1	9.1	1.1	12.9	2.8	35.9	High	2
HMSP	Buy	1,110	1,400	8,910	14.0	14.4	4.2	30.2	7.1	25.7	Medium	na
ICBP	Buy	8,500	12,500	6,841	14.9	13.7	3.0	21.4	3.4	38.4	High	na
INDF	Buy	6,650	9,000	4,029	9.5	8.4	1.3	14.0	5.3	44.4	Severe	4
KLBF	Buy	1,390	2,000	4,496	22.2	20.3	3.5	16.3	1.8	31.4	High	na
MYOR	Buy	2,380	3,800	3,672	21.9	18.7	4.2	20.6	1.8	48.5	Severe	1
UNVR	Buy	5,075	9,800	13,361	25.0	24.0	39.2	156.9	4.0	18.7	Low	na
Simple Average					**16.7**	**15.5**	**8.1**	**38.9**	**3.7**	**34.7**	**High**	

* Derived from leading external ESG research and data provider Sustainalytics; ** based on 2021 earnings forecasts

Source: Bloomberg, Sustainalytics, Maybank Kim Eng

Gudang Garam (GGRM IJ)

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Risk Rating & Score[1]	High risk (35.9)
Score Momentum[2]	-0.1
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 26 Feb 2021)	2

Business Model & Industry Issues

- Rising health awareness globally and government policies to reduce smoking could put GGRM's business at risk and hurt investor appetite for the stock. This could lead to derating of the stock.
- The government's medium-term policy to use excise tax not only as a fiscal tool to boost state revenues, but also as an instrument to control consumption of unhealthy products will increase regulatory risk for GGRM and could be an overhang for the stock.
- GGRM's decision to build a local airport without clear profitability measures is not positive for shareholders' return and corporate governance practices.

Material E issues

- GGRM's environment policy is focused on creating a safe, convenient, efficient, and productive working environment, with care for the preservation of the environment.
- GGRM has policies and facilities for waste-water management, air pollution control, waste management, water conservation and provision of green open space, and energy conservation. However, there are no statistical details on the implementation of environment management within the company.
- In 2019, both the Gempol and Kediri facilities were awarded Blue PROPER rating, the third rank out of five, for environmental management and community empowerment from the Ministry of Environment and Forestry. It suggests that GGRM's practices meet with national regulatory standards.

Material S issues

- GGRM's Occupational Health and Safety is carried out via internal system, which follows regulations. It has been audited regularly by an external auditor (Sucofindo). GGRM has received an external score of 93.37% (Satisfactory).
- GGRM has a code of ethics for management and employees and policies in place on anti-corruption, insider trading and whistleblowing.
- GGRM is in full compliance with regulations on health warnings in respect of packaging and display advertising, including regulations on television and other forms of advertising and event sponsorship.
- GGRM is committed to be an equal opportunities employer, fully compliant with labour laws with a collective labour agreement in place.
- Most of the employees are female, but there is no percentage breakdown.
- In 2019 GGRM spent 0.3% of earnings for CSR programmes, which covered activities related to cultural beliefs, education, and social infrastructure, including safe and adequate living conditions.

Key G metrics and issues

- The Board of Commissioners (BoC) is a non-executive body representing the interests of all shareholders of the company with the main objective to supervise and monitor the management of the company. Meanwhile, the Board of Directors (BoD) is the executive team leading GGRM's daily operations.
- BoC and BoD carry out their internal meetings at least once in every two months and once in every month, respectively. They hold a joint meeting at least once every four months. The meeting of the BoC/BoD shall only be lawful and entitled to adopt binding resolutions if more than half of the BoC/BoD members are present or represented in the meeting.
- BoC members consist of four people, with one of them (25%) is female and two of them are independent commissioners. BoD members consist of eight people (all male), and one of them is an independent director. There are no BoC members sitting on the BoD and the other way around.
- The President Commissioner and the CEO are family related. Both are related to the majority shareholder of GGRM (Suryaduta).
- Total compensation (short-term employee benefits) of the BoC and BoD members in 2019 accounted for c.1.5% of earnings.
- GGRM has commenced construction of a local airport in Kediri with total investment of IDR6-9t, equivalent to 55-83% of 2019 earnings. There is no clear guidance on the profitability of the project, but management is hopeful it can contribute to the accelerated economic development of Kediri and its surroundings.
- Ownership of BoC and BOD members at GGRM account for 0.67% of total outstanding shares.
- KPMG has been the auditor of the company for more than five years.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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HM Sampoerna (HMSP IJ)

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Risk Rating & Score[1]	Medium risk (25.7)
Score Momentum[2]	-0.3
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 17 Feb 2015)	0

Business Model & Industry Issues

- HMSP's approach to sustainability is focused on 1) driving operational excellence, 2) managing social impact, 3) reducing environmental footprint, and 4) transforming business. Whether this is positive for the company depends on HMSP's ability to execute and whether its dependence on the cigarette business can be reduced.
- In the meantime, we believe that rising health awareness could put HMSP's business at risk, discouraging market appetite in the sector and derating the stock's valuation.
- Government's medium-term policy to use excise tax as a tool to boost state revenues and to control consumption of unhealthy products will increase regulatory risk for HMSP and could be an overhang to the stock.

Material E issues

- HMSP's main environmental objective is to reduce its carbon footprint across its entire operations. It targets to send zero waste to landfills by 2024. To reduce consumer waste, it has raised awareness by collaborating with over 45 environmental groups.
- HMSP is also conscious of its water use and promotes water recycling, watershed conservation, and sustainable water management in collaboration with stakeholders.
- In 2019, HMSP became the first company in Indonesia to receive a certification from the Alliance for Water Stewardship (AWS) for water conservation initiatives at one of its production facilities. It aims to have an AWS certification for all its sites.
- In 2019 HMSP received the PROPER Green Award issued by the Ministry of Environment and Forestry of Republic of Indonesia, for beyond-requirement environmental management.

Material S issues

- HMSP's Code of Ethics (Guidebook) is adopted from its parent company's (Philip Morris International/PMI), which applies to the Board of Commissioners (BoC), Board of Directors (BoD), and all employees. It reflects its commitment to society, its shareholders, business partners, and provides a roadmap for the employees as to how HMSP functions as a company.
- The Guidebook covers the following beliefs and attributes: workplace integrity, conflicts of interest, anti-bribery, and anti-corruption, and fiscal and trade.
- HMSP is committed to advancing Good Agricultural Practices and Agricultural Labour Practices. It works with its suppliers and partners to eliminate all forms of child labour and to further improve the environmental conditions and tobacco crop sustainability where it operates.
- Majority of the employees (2019-end: 65%) are female.

Key G metrics and issues

- Shareholder meeting is the company's highest decision-making body.
- BoD is an executive body running daily operations of the Company. Meanwhile, BoC is an executive body supervising and monitoring activities of the BoD to make sure they are in line with the interests of the shareholders. In performing its duties, the BoC is assisted by several committees, including the internal audit committee.
- BoD consists of six members, two of which (33%) are female. BoC consists of four (all male), and two of them are independent commissioners. There are no BoD members sitting in the BoC, and vice versa.
- The BoC meeting must be convened periodically at least once every two months and may also be convened at any time if deemed necessary. The BoC must convene a meeting with the Board of Directors periodically at least once every four months.
- There is no information on HMSP shares that belong to BoC and BoD members.
- Total compensation for the BoC and BoD in 2019 was IDR96.9b, c. 0.7% of 2019 earnings. This was quite low compared to other Indonesian corporates under coverage. The compensation consists of salaries and short-term benefits (87%), share-based payments (11%), and post-employment benefits (2%).
- In the past there were no related-party transactions, which were detrimental to the interests of the minority shareholders.
- PWC has been the auditor of the company for at least 10 years.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Indofood CBP (ICBP IJ)

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Risk Rating & Score[1]	38.4
Score Momentum[2]	-0.1
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 26 Jun 2019)	0 - No reported incidents

Business Model & Industry Issues

- As a leading FMCG company in Indonesia, together with its suppliers, ICBP actively strives to improve its operations to be more environmentally sustainable to meet the increasing demand from its end-customers for sustainable sourcing and a reduction in non-organic waste and pollutants.
- ICBP forms partnerships with traditional small-scale retailers to expand its point of sales, which is positive for the development of the economy particularly in rural areas. ICBP also actively participates in the World Food Programme (WFP) initiated by the United Nations for the provision of humanitarian aid relating to natural disasters in Indonesia.
- ICBP has completed several related-party transactions (RPTs) in the past that involves the main shareholder; Salim Family. Its biggest transaction to-date i.e. Pinehill Co. acquisition for USD2.9b and obtained the approval from minority shareholders. In our view, the RPTs could raise concerns for minority shareholders and may impact valuation.

Material E issues

- In 2019, half of ICBP's operating units have been certified to ISO standard 140001 on the environmental management system. ICBP's noodle division was recognized as the first in the noodle industry in SE Asia to receive ISO standard.
- In 2019, three operating units of the company (5% of total factory) received Green Rank (the second highest rank) of Performance Rating Program in Environmental Management (PROPER) award from the Ministry of Environment for surpassing the prevailing regulations.
- In 2019, more than a quarter of ICBP's total energy use was derived from renewable energy sources i.e. principally from the use of oil palm shells. ICBP advocates energy efficiency operations at each of its factories.
- Since 2019, ICBP has started collaborating with McKinsey on a waste management project.
- ICBP has been a member of the Partnership for Indo Sustainable Agriculture (PISAGRO) to promote sustainable agricultural practices, to increase agricultural yields by 20% while reducing CO_2 emissions by 20% by 2020, and to reduce the waste to landfill by 30% in 2025, with the ultimate target for zero waste to landfill in the long term.

Material S issues

- In 2019, the proportion of male:female employees was 73%:27%. There is no female representation on the BoC and the BoD. No report on below-minimum wage payments.
- ICBP enforces the ISO standard 18001 for the Occupational Safety and Health Management System (OHS). In 2019, there was no report of accidents at the work place.
- The company has a partnership with agricultural farmers and cow breeders, and provides regular training to local vendors on food services, hygiene, and stall management.
- ICBP endorses R&D activities through Indofood Riset Nugraha, an undergraduate research grant focusing on food security. Also, the company provides regular healthcare and education services to rural communities.
- In 2019, CSR-related expenditure accounted for c.6% of net profit.

Key G metrics and issues

- Day-to-day operations of the company are run by the BoD, which are supervised by BoC, which is assisted by an independent Audit Committee. There are no BoC members sitting in the BoD.
- The BoC consists of six members, and three of them (50%) are independent commissioner. The BoD consists of 10 members. None of the BoC members sit in the BoD, and vice versa.
- The President Commissioner of ICBP, Franciscus Welirang, is related to the President Director of ICBP, Anthoni Salim, and Director of Company, Axton Salim.
- The President Director, Anthoni Salim, is also and indirect shareholder of INDF that has an 80.5% stake in ICBP.
- The BoD holds meetings at least once a month and is also required to have periodic meetings with the BoC at least once in four months. In 2019, the BoD held 15 meetings, including four joint meetings with the BoD.
- In 2019, total remuneration of the BoC and BoD of INDF and its consolidated subsidiaries were c.1.1% of net profit.
- EY has been the auditor of the company for more than 10 years.
- In 2008, ICBP acquired a 68% stake in PT Indolakto, a dairy company from Pastilla Investment Limited at USD350m or EV/EBITDA of 12.5x. The business is now the second largest earnings contributor for ICBP (16%) in 2019. In 2018, ICBP acquired a 50% stake in PT Nugraha Indah Citarasa Indonesia from Nestle Indonesia to strengthen its seasoning business. EBIT margin of the business improved to 4.0% in 2019, from 3.7% in 2018.
- In May 2020, ICBP signed a conditional sale and purchase agreement to acquire a 100% stake in Pinehill Company Limited, from Pinehill Corpora and Steele Lake that are affiliated companies of Anthoni Salim. The acquisition has been approved by minority shareholders.
- ICBP enters into recurring related party transactions mostly involving purchases of raw material (flour) and distribution services. In addition, ICBP pays a royalty of 1.5% of sales to INDF for the use of trademarks.

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Indofood Sukses (INDF IJ)

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Risk Rating & Score[1]	44.4
Score Momentum[2]	-0.0
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 31 Dec 2020)	4 - Employee (Human rights)

Business Model & Industry Issues

- As a leading staples food conglomerate in Indonesia, INDF is empowering the welfare of the people through the planned expansion of its point of sales to 1m points in 2025E (from 700,000 in 2019), mainly engaging SME-based, mom-and-pop stores.
- The withdrawal from RSPO membership in 2019 could 1) weaken INDF's access to financing from international financial institutions in the long run; and 2) negatively impact the market perception of INDF's implementation of ESG practices.
- The structural shift from fossil to biodiesel fuel could be positive for the plantation division. Thus, there is a need for INDF's initiatives to improve sustainable planting practices and ensure there are no further exploitative labour practises.
- INDF has completed several related-party transactions (RPTs) in the past that involves the main shareholder i.e. the Salim Family. Its biggest transaction to-date i.e. Pinehill Co. acquisition for USD2.9b is underway and has obtained the approval from minority shareholders. In our view, any RPT may raise concerns for minority shareholders and impact valuation.

Material E issues

- In 2019, INDF's noodle and flour operating units (61% of total factory) have been certified to ISO standard 14001 on the environmental management system.
- Despite the withdrawal from RSPO in 2019, the proportion of INDF's plantation with Indonesian Sustainable Palm Oil (ISPO) certification was 80% in 2019. While both RSPO and ISPO aim to reduce the loss of forest coverage, ISPO is mandatory for all palm oil plantations and mills and has fewer criteria than RSPO.
- All of INDF's production facilities are equipped with Waste Water Treatment Plant (WWTP), ensuring compliance with the regulatory limit on waste water.
- In 2019, four operating units received a Green Rank (the second highest rank) for the Performance Rating Program in Environmental Management (PROPER) award from the Ministry of Environment.

Material S issues

- In 2019, the proportion of male:female employees was 73%:27%. No female representation on the BoC and BoD.
- There were reports on exploitative labour practices in 2016, from Rainforest Action Network (RAN), International Labour Right Forum (ILRF) and Indonesian Labour Right Organization (OPPUK) for its plantation operations. RAN, ILRF, and OPPUK lodged a complaint to the RSPO, followed by RSPO's independent investigation in 2017-2018.
- After 15 years of commitment with the Roundtable on Sustainable Palm Oil (RSPO), Indofood Agri (IFAR) withdrew from RSPO membership in 2019 due to the dispute over the audit review between IFAR and the RSPO on the alleging instances of labour law violation at one of Indo Agri's subsidiaries in 2016.
- INDF enforces the ISO standard 45001 for the Occupational Safety and Health Management System (OHS). Average Fatality Rate (AFR), which measures the number of work accidents resulting in the loss of workdays per one million working hours, dropped to 1.6 in 2019, from 1.7 in 2018.

Key G metrics and issues

- Day-to-day operations of the company are run by the BoD, which are supervised by BoC, assisted by an independent Audit Committee. There are no BoC members sitting in the BoD.
- The BoC consists of eight members, and three of them (38%) are independent commissioners. The BoD consists of eight members.
- The President Director, Anthoni Salim, is also an indirect shareholder who controls a 50.1% stake in INDF. Also, two members of the BoD, Axton Salim and Franciscus Welirang, are related to him.
- The BoD holds meetings at least once a month and is also required to have periodic meetings with the BoC at least once in four months. In 2019, the BoD held 15 meetings, including four joint meetings with the BoD.
- In 2019, total remuneration of the BoC and BoD were c.4.5% of net profit.
- EY has been the auditor of the company for more than 10 years.
- In 2013, INDF acquired an 82.8% stake in China Minzhong Food Corporation, a SGX-listed integrated vegetable manufacturer in China, at SGD588m or 11.7x EV/EBITDA. In 2016, INDF sold its all stakes in Minzhong Food Corporation to CMZ BVI and Marvellous Glory Holdings which are affiliated companies of Anthoni Salim for SGD651m. The divestment had been approved by minority shareholders.
- In 2020, INDF's subsidiary, Indofood CBP (ICBP IJ), signed a CSPA to acquire a 100% stake in Pinehill Company Limited, from two affiliated companies of Anthoni Salim. The acquisition has been approved by minority shareholders.
- INDF conducted two land acquisitions at Bintan and Pasuruan with total area of 83ha, from a related party in 2018 with a total transaction value of USD207m (3% of total sales in 2018).
- INDF has recurring RPTs with its subsidiaries and affiliates. In 2019, INDF's RPT transactions accounted for c.11% of total sales.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Kalbe Farma (KLBF IJ)

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Risk Rating & Score[1]	31.4
Score Momentum[2]	-1.9
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 21 Feb 2019)	0 - No reported incidents

Business Model & Industry Issues

- There is a perceived positive social contribution from KLBF's business given its wide range of consumer health products, prescriptions, OTC medicines, energy drinks, and ready-to-drink healthy beverages. KLBF aims to improve the health and wellness of the Indonesian people. KLBF continuously conducts R&D to produce lower cost drugs and since 2018, KLBF has been a leading domestic player in the biosimilar segment focusing on cancer treatment (oncology), which is an increasingly prevalent disease in Indonesia.
- KLBF has actively participated in the National Health Insurance (BPJS) programme by supplying cheaper, effective and unbranded drugs notwithstanding lower profitability i.e. unbranded drugs carry lower EBIT margin (at 8-10%) than branded or licensed drugs (at 18-20%). KLBF aims to increase its unbranded sales contribution to 25% by 2025 from 22% in 2019.
- Kalbe demonstrates strong governance, as evidenced by its clean track record for more than 30 years. A key differentiating positive is that all the board members are independent.

Material E issues

- In 2015, KLBF obtained ISO standard 14001 for environmental management and has reported zero breaches of compliance of regulations for environment protection set by the regulators.
- In 2019, KLBF's production plant received a Green Rank (the second highest rank) in the Performance Rating Program in Environmental Management award from the Ministry of Environment and Forestry for surpassing the prevailing regulations.
- KLBF has a Waste Water Treatment Plant in its manufacturing plants and meets the Environmental Quality Standards set by the government.
- In 2019, six production facilities successfully increased the conversion of diesel to natural gas by 55%. This has reduced Sulphur Dioxide emissions to 91 mg/m3 in 2019, from 96 mg/m3 in 2018.

Material S issues

- High gender diversity with 67% of male and 33% female employees in 2019. Three out of seven (43%) of the BoC members are female. KLBF adheres to the local minimum wage regulation.
- KLBF enforces ISO standard 45001 for occupational health and safety. In 2019, there was no report of accidents at the work place.
- In 2015, one of KLBF's anaesthetic products reportedly caused accidental death of two patients at Siloam Hospital, leading to a voluntary suspension of the licence to distribute and produce its 26 injection-based products. Following this, KLBF implemented Indonesia FDA's recommendation to improve its production process and quality assurance. Since 2016, there have been no reports of non-compliance of product safety and labelling.
- KLBF actively provides education and training to communities and partners with local farmers. Recently it assisted the government's Covid-19 task force. In 2019, CSR-related expenditures accounted for c.1% of net profit.

Key G metrics and issues

- KLBF has implemented the ASEAN Corporate Governance Score Card since 2012, issued by the ASEAN Capital Market Forum and the Asian Development Bank.
- Business operations of the company are run by the board of directors (BoD), which are supervised by the board of committee (BoC), which is assisted by an independent audit committee. There are no BoC members on the BoD.
- The BoC consists of seven members, and three of them (43%) are independent. The BoD consists of six members.
- As part of the founder's aspiration to promote good corporate governance, all the BoD members are independent with more than 30 years of experience.
- Four members of the BoC are related to the major shareholders. Shares of the BoC members account for 0.28% of total outstanding shares.
- The BoC must hold at least one meeting every two months. It must also hold a meeting every four months with the BoD. In 2019, the joint meetings of the BoC and BoD were held four times.
- In 2019, total remuneration of the BoC and the BoD of KLBF and its consolidated subsidiaries were c.1.7% of net profit.
- EY has been the auditor of the company for more than 10 years.
- In 2004, KLBF formed a JV with Morinaga Milk Industry and invested USD21m for a 70% stake in the JV to develop its nutrition business. The business is now the second largest earnings contributor for KLBF, and accounted for 29% of total sales in 2019, up from 23% in 2005.
- In 2019, Mitra Keluarga hospital (MIKA IJ, NR), a related party of KLBF's main shareholders, accounted for c.1% of KLBF's total sales. MIKA listed on the Indonesian Stock Exchange in 2015, and gave an average return of c.30% to shareholders over the past 12 months.

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Mayora Indah (MYOR IJ)

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Risk Rating & Score[1]	48.5
Score Momentum[2]	N/A
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: DD Mmm YYYY)	1 - Environmental impact of the product

Business Model & Industry Issues

- As a leading FMCG company in Indonesia, the company sets a policy to achieve zero environmental waste for all factories. In addition, MYOR periodically appoints third-party experts and inspectors to ensure the production process is environmentally compliant with the prevailing regulation set by the Ministry of Environment.
- While MYOR entirely employs locals, gender equality is not reflected on the management boards. There is an opportunity for MYOR to promote female representation in the boards to improve the S aspect of ESG implementation.
- Given its high dependence on related parties for the distribution of its finished products (c.63% of sales) to the markets, there is a need for MYOR to diversify its distribution network to 1) lower operational risks and 2) improve the G aspect of ESG implementation. Also, the related parties from MYOR's main shareholders are actively involved in the company's management. That said, MYOR enforces a whistleblowing system to prevent any illegal activities and conflict of interest with its shareholder. But, we still see a need for the company to strive for a more professional board in the long term.

Material E issues

- In 2019, MYOR received Blue Rank (the third highest rank) of Performance Rating Program in Environmental Management (PROPER) award from the Ministry of Environment for complying with the prevailing regulations.
- All of MYOR's production facilities are equipped with Waste Water Treatment Plant (WWTP), ensuring compliance with the regulation on waste water. MYOR nearly has no environmental waste from its production activity.
- MYOR has a fertilization program where the company distributes organic fertilizer to the local farmers and community. The fertilizer is the product of MYOR's collaboration with its stakeholder to recycle the production waste through its treatment facility and converts the waste into organic fertilizer.

Material S issues

- While MYOR has a 100% local work force and adheres to the local minimum wage regulation, there was no female representation on the BoC and BoD. Also, MYOR does not report the number of employees by gender.
- MYOR enforces the ISO standard 14000 for the occupational health and safety since 2004. The Work Accident Rate (WAR), which measures the number of employee involved in work accident, dropped to 2.4 in 2019, from 2.8 in 2018.
- MYOR enforces ISO standard 22000 for Food Safety Management System. In 2019, there were no reports on food safety issue. In 2014, MYOR obtained Hygiene and Sanitary Certificate (H&S) from Indonesian FDA (BPOM).
- MYOR and the National Team for Accelerated Poverty Reduction (TNP2K) signed a MoU to help prevent the nutritional deficiency for the local community in three provinces in Banten, West, and East Java. The program was initiated in March 2020.
- In 2019, CSR-related expenses accounted for 1.9% of total net profit for various social and community developments.

Key G metrics and issues

- The company's business operations are managed by the Board of Director (BoD), which are supervised by the Board of Commissioners (BoC), and assisted by an independent audit committee. There are no BoC members on the BoD. The BoC consists of five members, and two of them (40%) are independent commissioners. The BoD consists of five members. There is no independent director at BoD.
- The President Commissioner, Jogi Hendra Atmadja, controls a total of 58.1% stake in MYOR. The Commissioner, Gunawan Atmadja, the President Director, Andre Atmadja, and two members of the BoD, Hendarta and Wardhana Atmadja, are all related to the President Commissioner of MYOR. Public ownership in MYOR is only 15.7%.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2019, the joint meetings of the BoC and BoD were held five times.
- In 2019, total remuneration of the BoC and BoD accounted for 1.3% of the net profit (peer average: 2.0%)
- Moore Global has been the auditor of the company for the last 15 years.
- MYOR manufactures and sells popular brand products, such as Roma, Kopiko, and Torabika. The brands are owned by its parent company, but MYOR does not pay any royalty fees.
- Unlike its peers which distribute in-house, MYOR appoints an exclusive distributor; a related party for its products in Indonesia and export markets. As of 2019, the related-party transactions with its distributor are high at 64% of total sales. The remaining 26% is channelled through third-party distributors.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Unilever (UNVR IJ)

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Risk Rating & Score[1]	18.7
Score Momentum[2]	+0.3
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 13 Apr 2019)	0 - No reported incidents

Business Model & Industry Issues

- Unilever Indonesia (UNVR), together with its parent company UNVR NV, has pledged EUR1b for Clean Future initiatives. This aims to 1) halve the use of virgin plastic; and 2) reduce the company's carbon footprint by 20%, by 2025. In our view, the Clean Future initiatives are positive for improving the E aspect of UNVR's ESG practices.
- UNVR enforces its Code of Business Principle and Code of Policies to promote good corporate governance. In addition, UNVR has 100% professional boards, meaning none of the BoC and BoD is affiliated with the controlling shareholder and the other members of the BoC and BoD.
- UNVR actively develops eco-friendly products and promotes women empowerment in its engagement with stakeholders.
- In sum, we are of the view ESG integration within UNVR's business practices has been significant as it also follows the strong commitments of its parent entity. As such, we believe UNVR deserves a valuation premium for its advanced ESG initiatives.

Material E issues

- In 2019, UNVR received Blue Rank (the third highest rank) of Performance Rating Program in Environmental Management (PROPER) award from the Ministry of Environment for complying with the prevailing regulations.
- All of UNVR's factories have acquired the Leadership in Energy and Environmental Design (LEED) certificate from the US Green Building Council since 2015.
- UNVR complies with the group-wide target in reducing use of new plastic and will source 100% renewable chemical input for products (c.21% of sales). It aims for a 20% reduction in carbon footprint of its operations by 2025.
- UNVR has implemented a zero waste-to-landfill policy since 2014, leading to no waste and non-hazardous waste from its factories and offices ending up at landfills.
- UNVR imposes its Sustainable Agriculture Code (SAC) on its suppliers to achieve eco-responsible raw material sourcing and has zero tolerance towards biodiversity damage. With this, UNVR only sources its tea input from Rainforest Alliance certified growers and palm oil from Roundtable on Sustainable Palm Oil (RSPO) certified planters.

Material S issues

- The proportion of male-to-female in the workforce was 80%:20% in 2019, improving from 83%:17% in 2018. UNVR adheres to the local minimum wage regulation.
- UNVR enforces the ISO standard 45001 for the Occupational Health and Safety Management System (OHS). In 2019, there was no report of accidents in its workplace.
- UNVR actively provide multiple training programs for both its employees and stakeholders. In 2019, the total employee training hours increased by 71% to 57,105 hours.
- UNVR undertakes various women empowerment initiatives to increase the capability of women's economy. In 2019, UNVR has reached more than 500,000 women entrepreneurs in rural areas.

Key G metrics and issues

- UNVR has implemented the ASEAN Corporate Governance Scorecard since 2015, issued by the ASEAN Capital Market Forum (ACMF) and the ASEAN Development Bank. UNVR was awarded the Good Corporate Governance (GCG) Award from the Indonesian Institute of Corporate Directorship (IICD) in 2019.
- The company's business operations are managed by the Board of Directors (BoD), which are supervised by the Board of Commissioners (BoC), assisted by an independent Audit Committee. There are no BoC members sitting in the BoD.
- The BoC consists of five members and the BoD consists of 13 members. None of the BoC and BoD members have affiliations with the controlling shareholder of UNVR and with any other members of the BoC and BoD.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2019, the joint meetings of the BoC and BoD were held six times.
- In 2019, total remuneration of the BoC and BoD accounted for c.1.3% of the net profit.
- KPMG has been the auditor of the company for six years.
- In 2018, UNVR divested its spread business to Sigma Bidco B.V., an entity related to a private equity company (KKR), for EUR164m. This follows the strategy of its parent's spread business divestment move to improve the sustainability aspect of its business practices.
- UNVR enters into recurring related party transactions mostly involving the export sales of its product (c.4.7% of sales in 2019). In addition, UNVR pays a royalty of 6.9% of sales to the ultimate parent entity for the use of trademarks, technology, and service fees.
- Since 2007, UNVR has consistently delivered a 100% dividend payout to its shareholders.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

5.6. Infrastructure

- **Environmental and social impact of projects, workers' safety and bribery and corruption are the critical factors within the construction sector.**
- **In our view, contractors under our coverage have taken positive steps to improve 'their governance principles, especially related to bribery & corruption that poses the highest risk.**
- **We are Neutral on the sector. Our Top Picks are JSMR and WIKA.**

Severe ESG risks within the sector

The main ESG risks in the construction sector are related to the environmental impact of projects, thus the need to address sustainability within the sector is increasingly important. We note that construction companies have focused on reducing energy usage and the associated emissions. The social risk is related to minimum wages and safety, which we think are managed well by construction and toll road companies.

Improving compliance

Despite immense ESG risk, the industry has taken positive steps to become more environmentally sustainable. For instance, most contractors already operate based on ISO 140001:2015 for environmental management system. Some companies have been diversifying to green projects. Construction companies place the importance on safety by appointing a director responsible for QSHE (Quality, Safety and Environment Management System).

Maintain NEUTRAL view

We have a NEUTRAL view on the sector with JSMR and WIKA being our Top Picks. We prefer companies that have strong balance sheets and will benefit from economic recovery.

Fig 68: Infrastructure sector

Ticker	Rating	Price*, IDR	TP, IDR	Upside, %	Market cap, USD m	ESG Score***	ESG Risk Rating***	Controversy Score***	Controversy Rating***	PER**, x	PBV**, x	Yield**, %	ROE**, %
JSMR	BUY	3,720	5,500	48.5	1,847	14.1	Low	1	Low	18.3	1.3	0.7	7.5

* Based on closing prices as of 21 July 2021; ** based on 2021 earnings forecasts; *** derived from leading external ESG research and data provider Sustainalytics

Source: Bloomberg,Maybank Kim Eng, Sustainalytics

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Jasa Marga (JSMR IJ)

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Risk Rating & Score[1]	14.1 (Low)
Score Momentum[2]	na
Last Updated	4 Jan 2021
Controversy Score[3] (Updated: 13 Oct 2017)	1 (low)

Business Model & Industry Issues

- Ever since JSMR introduced the cashless toll transaction system (fully implemented in 2017), it has been able to reduce its salary expenses through cuts in toll booth operators by 25% from 2016 to 2019. However, JSMR has put efforts into providing support for affected employees through the A-Life program.
- Despite the government regulation No. 2/2012 regarding land acquisition, it is still one of the biggest challenges JSMR faces in projects. Typically, one area of land could be claimed by different parties as there are duplicate land certificates. These cases will be brought to the Supreme Court to be resolved. JSMR compensates landowners based on the prevailing market price, which is assessed by an independent third party.
- JSMR's business sustainability is subject to its toll concession contract period, which lasts for 40-45 years. Following the expiry of the concession, the government will fully own the concession. The government has the authority to extend the concession period. 13 of JSMR's toll concessions will expire in 2044, which currently contributes c.75% of revenue.

Material E issues

- To realize the company's commitment to provide care and sustainability for the surrounding environment, the Board of Directors of JSMR has issued an environmental management policy through the Decree No. 165/KPTS/2013 concerning Environmental Management System Guideline.
- In 2019, the Company spent IDR82b for environmental activities (4% of NPAT), such as planting trees along the toll road corridors, cleaning the drainage channels along the toll road, as well as counselling residents around the toll road to not litter, and providing trash bins etc.
- During the reporting period, all JSMR's new toll roads were not built on or adjacent to protected areas, hence there was no significant impact to the surrounding environment from the operation of the toll roads.
- In FY19, JSMR reduced the use of fuel by 350,341 kL and increased the use of electricity from renewable energy by 2,739 kWh.

Material S issues

- While the technology advancement in cashless toll transactions have reduced the number of employees (toll operators), JSMR provides the A-Life program, which supports employees to start their own business.
- JSMR is facing several litigation cases filed by landowners in the Semarang Toll Road C Section, Surabaya Toll Road Section, JORR E1 Toll Road Section, JORR W2 Toll Road Section, Pondok Aren-Ulujami Toll Road, and Belmera Toll Gate. These litigation cases are still under trial in the District Courts and the Supreme Court.
- According to the land acquisition law, land acquisition appraisal is done by an independent third party based on prevailing market price.
- At the end of 2020, 19% of employees were female (flat YoY).

Key G metrics and issues

- Government of Indonesia (GoI) owns JSMR directly via one series A share and indirectly (70% of series B shares).
- Through the series A share, the GoI has four main authorities on (1) appointment of Board of Commissioners (BoC) and Board of Directors (BoD), (2) change of capital structure, (3) change of articles of associations, and (4) divestment.
- The Good Corporate Governance (GCG) assessment score for FY20 was 98.00 (out of 100), which achieved a "very good" qualification. GCG assessment score.
- The BoD and BoC consist of six members each. Two of the BoC members are independent commissioners. No BoC members sit on the BoD and vice versa.
- Every month, there is a minimum of two meetings, namely the BoC meeting and the BoC coordination meeting with the BoD.
- As of 2020, JSMR has 23 female employees out of 108 employees in the top management level.
- In line with the national development priorities, JSMR is actively developing its business activities through the construction of toll road infrastructure in a number of regions in Indonesia.
- The total remuneration for the BoD was c.6% of JSMR's total salary and allowance expenses or c.2.5% of FY19 net profit.
- During 2019, the BoC encouraged the BoD to streamline the implementation of the Whistleblowing System (WBS) which is managed by an independent third party.
- While toll tariff is adjusted once every two years based on the regional inflation rate, the government has the power to delay tariff adjustment if economic condition is deemed unfavourable for any tariff increase. This occurred in 2020 due to Covid19 for six toll sections.
- EY is the auditor for JSMR and has been the auditor since the release of its 2015 Annual Report. Previously, RSM AAJ was the auditor since IPO in 2007.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

5.7. Property

- **The sector's key ESG risks are related to carbon emission from buildings and construction works, welfare, and safety of its workers, as well as negative perception of bribery and corruption.**
- **In our view, developers under our coverage have taken positive steps to become more environmentally sustainable, improve labour and community welfare, and strengthen governance principles.**
- **Our Top Picks are CTRA and SMRA.**

Medium ESG risks

With the increasing demand for ESG investment, environmental considerations are expected to be more crucial aspects in the property sector. The main environmental issue is related to carbon emission from building and construction that currently accounts for 39% of all carbon emission in the world. Operational emission (from energy used to heat, cool and light buildings) accounts for 28%. Thus, energy efficiency is also a critical issue that needs to be addressed. In addition, developers also need to avoid building on conservation areas.

Fulfillment of sustainability aspects

The industry has taken positive steps to become more environmentally sustainable. For instance, all residential developers comply with the minimum 30% of green open space for every building area being developed. None of them develop properties on forestry or conservatory land and have received a licence from the local government and the Ministry of Agrarian and Spatial Planning. To tackle the carbon emission issues, most developers incorporate energy savings features into their buildings (better airflow, and reduce air conditioning and lighting usage) and only accept building material supplies with ISO 140001 certification.

Maintain POSITIVE view

We remain POSITIVE on the sector due to strong pre-sales achievement among developers, given the favourable interest rate environment and strong demand from end-users. The sector is poised to enjoy the extension of VAT relaxation incentive by the government until the end of this year (vs. previously ends in Aug'21).

Fig 69: Property sector – summary of ratings and valuations

Stock	Rating	Share price (IDR)	TP (IDR b)	Market Cap (USDm)	PER (x) FY21E	PER (x) FY22E	PBV (x) FY21E	ROE (%) FY21E	Div. Yield (%) FY21E	Risk Rating	Risk Category	Controversy Score
Alam Sutera Realty	BUY	157	400	213	7.1	6.4	0.3	4.4	0.0	26.5	Medium	na
Bekasi Fajar	SELL	123	155	82	na	26.2	0.3	-3.8	0.0	23.4	Medium	na
Bumi Serpong Damai	BUY	920	1,850	1,345	10.2	10.5	0.6	6.0	0.0	22.0	Medium	na
Lippo Karawaci	BUY	144	265	705	5.8	33.3	0.4	7.4	0.0	32.0	High	4
Ciputra Development	BUY	900	1,400	1,153	18.7	26.0	1.0	5.3	1.0	27.0	Medium	2
Pakuwon Jati	BUY	410	820	1,364	9.3	10.1	1.1	13.1	1.4	26.9	Medium	na
Puradelta Lestari	BUY	194	270	646	8.9	10.9	1.5	17.8	11.3	26.3	Medium	na
Summarecon Agung	BUY	770	1,250	878	29.8	22.5	1.4	5.1	0.1	29.1	Medium	na
Industry Average					12.8	18.2	0.8	6.9	1.7	26.7	Medium	

Source: Bloomberg, Sustainalytics, Maybank Kim Eng

Alam Sutera Realty Tbk (ASRI IJ)

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Risk Rating & Score[1]	26.5 (Medium)
Score Momentum[2]	-1.2
Last Updated	25 Feb 2021
Controversy Score[3] (Updated: 1 Jan 2000)	0 – No Reported Incident

Business Model & Industry Issues

- ASRI develops different types of properties by opening new greenfield or brownfield areas upon receiving a letter of recommendation and obtaining the required licenses from both the local government and the Ministry of Agrarian and Spatial Planning/National Land Agency. ASRI develops properties on non-forestry/conservatory land.
- As one of the successful township developers in Greater Jakarta, ASRI embraces green development where they regularly plant thousands of trees every year. Also, being a labour-intensive industry, ASRI sets high standards in occupational health, safety and workers' welfare which adheres to local regulations. However, the company could improve its gender diversity by promoting more women in its workplace.
- Especially positive is ASRI's BOD whose members are all professionals with long-standing experience in the company.

Material E issues

- ASRI has helped to conserve the natural environment by converting a waste water lake into an odourless and clean man-made lake in its township development in Alam Sutera Serpong. This lake is now enjoyed by the community living in the township.
- ASRI conducts regular inorganic waste collection in its township - the wastes are processed for recycling centres.
- Every ASRI property development project supports environmental sustainability through the creation of green open spaces in its public and social facilities. The government requires a minimum of 30% green open space for every building area developed. Each of ASRI's property developments comply with the environmental assessments and requirements of related government authorities.
- ASRI received multiple awards for Green Open Space and sustainable development for its property projects from several esteemed international real estate associations.

Material S issues

- As of 2020, from a total of 1,881 employees, the male:female workforce ratio was 74%:26%. 20% and 25% of the BOC / BOD members are female. ASRI adheres to local minimum wage regulations.
- ASRI is committed to providing continuous training and competency development for its employees. It held fourteen training sessions in 2020.
- Implements the Occupational Health and Safety Management System to guarantee the safety of all employees in carrying out their duties and responsibilities. There were no accidents in the workplace reported in 2019.
- ASRI allocated IDR515m for CSR activities related to employee and workers' safety measures, social development for its local communities and other events. ASRI also conducts charitable events for natural disaster reliefs and regular blood donor events every three months.

Key G metrics and issues

- The company's business operations are managed by the board of directors (BOD), which are supervised by the board of committee (BOC).
- The BOC consists of five members with two independent commissioners (40%). Three of the BOC are related to the main shareholders. There are no BOC members on the BOD. The BOD consists of four members - all are professionals.
- The main shareholder is an entity under Manunggal Group; a conglomerate in Indonesia with businesses mainly in the property sector. The major shareholder controls 45.8% of the total outstanding shares, and it owns an industrial estate development company; Bekasi Fajar Industrial Estate (BEST IJ) and Mega Manunggal Property (MMLP IJ). There is no intercompany ownership between ASRI, BEST and MMLP. There are also no irregular transactions amongst these related parties.
- The BOD holds meetings at least once a month and it is required to have periodic meetings with the BOC at least once every four months. In 2020, the joint meetings were held three times.
- In 2020, total remuneration of the BOC and BOD and its consolidated subsidiaries were 7.6% of EBIT.
- PKF International has been the auditor of the company for more than ten years.
- In 2013, ASRI sold brownfield land to BEST valued at IDR1,007b (21% of ASRI's FY13 presales), translating to IDR1.1m psm. The pricing was at arms-length, with the land being brownfield and in a prime location. The transaction was done as the land owned by ASRI was located at BEST's development in Bekasi, West Java.
- Besides this transaction, ASRI has no other material related party transaction.
- ASRI issued its first USD global bond in 2012 for USD150m. Since then, ASRI has issued four other USD global bonds totalling USD780b.
- Recently, ASRI has successfully completed the exchange offer of its two outstanding bonds with maturities in 2021 and 2022. As of Nov 2020, ASRI's outstanding global bonds totalled USD485m, with maturities pushed to 2024 and 2025.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; …; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Bekasi Fajar (BEST IJ)

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Risk Rating & Score[1]	23.4 (Medium)
Score Momentum[2]	-0.2
Last Updated	01 Feb 2021
Controversy Score[3] (Updated: 18 May 2014)	0 – No Reported Incident

Business Model & Industry Issues

- BEST develops and maintains industrial estates through opening new greenfield or brownfield areas upon receiving a letter of recommendation and obtaining the required licences from both the local government and the Ministry of Agrarian and Spatial Planning/National Land Agency. They develop properties on non-forestry/conservatory land. BEST only accepts potential tenants with low carbon emission industries. The company sets high standards in occupational health, safety and workers' welfare which complies with the prevailing government regulations.
- Daiwa House Industry, a Japanese conglomerate company which is BEST's strategic shareholder, has a big role in BESTs' development by instilling high international standards for their industrial estates.
- For the long-term strategy, BEST is looking to expand its business in other locations. One of the preparations for this plan is from the training and development, and introduction of its new corporate values as formulated in 2018, to its employees to prepare them for a bigger business expansion outside of the group's flagship industrial estate in Bekasi.

Material E issues

- The company is certified for ISO 14001:2014 with green proper ranking for environmentally-friendly policies. BEST operates its water treatment plants to provide supply of clean water as well as waste water treatment plants to process the waste from industrial activities. These conform to the Ministry of Health and Ministry of Environment regulations.
- BEST conducted mangrove planting activities in its community areas. Several thousands of mangrove trees were planted through these activities.
- The Company has a dedicated environmental control officer organization whose members are comprised of the environmental officers from each tenant/company so as to facilitate communication, information sharing, and environmental monitoring with all tenants. BEST continuously socializes the standard for waste management to its tenants to ensure its implementation.

Material S issues

- As of 2020, the total number of its women at workplace is 29%. The low percentage of women is due to the nature of its business.
- BEST is committed in maintaining high standards of human resources system so as to ensure that the principle of equality is being prioritised. The Company also ensures that employees' rights are always fulfilled whereby it abides with the Ministry of Manpower regulations and local minimum wage regulations.
- BEST also believes that training and employee development are needed both for the general interests of the company and the personal interests of each employee. In 2020, the company held four training sessions.
- BEST is also committed to improving the livelihood of the surrounding communities by providing many community development programs relating to health, public facilities, education, environment and lastly social aspects.

Key G metrics and issues

- The company's business operations are managed by the board of directors (BOD), which are supervised by the board of committee (BOC) and assisted by an independent audit committee. There are no BOC members on the BOD.
- The BOC consists of five members with three independent commissioners (60%). The BOD consists of five members. One BOC member and one member of the BOD are affiliated to main shareholder Argo Manunggal Land Development, and one member of the BOD are representatives from Daiwa House Industry (1925-JP, NR), BEST's second largest shareholder. Only one of BEST' board member is female (20%).
- The main shareholder is an entity under Manunggal Group; a conglomerate in Indonesia with businesses mainly in the property sector. The major shareholder controls 48.1% of outstanding shares, and it owns two property development companies; Alam Sutera Realty (ASRI IJ) and Mega Manunggal Property (MMLP IJ). There are also no irregular transactions amongst these related parties. Its second largest shareholder is Daiwa House Industry, a large Japanese conglomerate company which holds 10% of the company.
- The BOD holds meetings at least once every month and is required to have periodic meetings with the BOC at least once every four months. In 2020, the joint meetings were held five times.
- In 2020 total remuneration of the BOC and BOD and its consolidated subsidiaries were IDR20.5bn (vs. net loss of -IDR115b)
- PKF International has been the auditor of the company since its IPO in 2012.
- In 2013, ASRI sold brownfield land to BEST valued at IDR1,007b (21% of ASRI's FY13 presales). The pricing was at arms-length, with the land being brownfield and in a prime location. Besides this transaction, BEST has regular multiple transactions with MMLP and other non-listed entities as they are also in the warehousing business. These transactions were also done in arms-length and typically contributed less than 30% to BEST's total annual revenue.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Bumi Serpong Damai (BSDE IJ)

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Risk Rating & Score[1]	22.0 (Medium)
Score Momentum[2]	na
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 1 Jan 2000)	0 – No Reported Incident

Business Model & Industry Issues

- BSDE develops different types of properties through opening new greenfield or brownfield areas upon receiving a letter of recommendation and obtaining the required licences from both the local government and the Ministry of Agrarian and Spatial Planning/National Land Agency. They develop properties on non-forestry/conservatory land.
- As one of the largest property developers in Indonesia, Bumi Serpong Damai instils four pillars of sustainability. The four visions are to be best in real estate, adapting to climate and environment change, creating sustainable communities and be a patron to education. Its annual presales are one of the highest at IDR6.5t in 2020, and the company has 3,811 hectares of land bank, which is sufficient for more than 15 years of development.
- Being a labour-intensive industry, BSDE sets high standards in occupational health, safety and workers' welfare.

Material E issues

- BSDE's property development projects support environmental sustainability through the creation of green open spaces in its public and social facilities. The government requires a minimum of 30% green open space for every building area being developed.
- The strong commitment to promoting sustainable developments is through its BSD Green Office Park which is Indonesia's first green office park. This development has received multiple international awards and recognitions such as from the Gold Award in the World FIABCI Prix d'Excellence Award in Taiwan under the Category Sustainable Development and the International Property Award Asia. BSD Green Office Park was also the first office district in Indonesia to be certified as a 'Gold' Green district by Singapore's Building Construction Authority.
- In 2019, BSDE implemented new environmental requirements for its stakeholders whereby it only accepts ISO 14001 certified suppliers for its construction and building materials. The company also uses legally certified timber by the Ministry of Forestry and recycled materials.

Material S issues

- BSDE's top management are 25% women while senior managers are 33% women. At the manager levels, women are 35% of total, while at staff level, they are 39% of total.
- As one of its sustainability visions, BSDE continuously undertakes initiatives that empower its surrounding communities such as awarding scholarships to students and improving the skills of micro, small and medium enterprises (MSMEs) towards digitalisation. BSDE also provides modern wet markets which accommodate more than 3,000 MSMEs.
- BSDE adheres to Ministry of Public Housing regulation which requires developers to develop balanced housing whereas for each luxury house built, two medium segment houses and three low segment houses need to be built.

Key G metrics and issues

- The company's business operations are managed by the board of directors (BOD), which are supervised by the board of committee (BOC) and assisted by an independent audit committee. There are no BOC members on the BOD.
- The BOC consists of five members with two independent commissioners (40%). The BOD consists of eight members. Two members of the BOC and BOD are related to the main shareholder, Sinarmas Land.
- The main shareholder is an entity under Sinarmas Group; a large conglomerate in Indonesia with businesses in the resources, financial, property and TMT sectors. The major shareholder controls 65% of the total outstanding shares, and it owns an industrial estate development company; Puradelta Lestari (DMAS IJ). There is no inter-company ownership and transaction between BSDE and DMAS and irregular transactions with other Sinarmas Group companies. The BOD holds meetings at least once a month and it's required to have periodic meetings with the BOC at least once every four months. In 2019 the joint meetings were held four times.
- In 2015, BSDE issued USD225m global bonds from a debut sale of US dollar notes by Sinarmas Group, the first since Asian Financial Crisis (AFC). The offer was two times oversubscribed, leading to a lower yield compared to its peers at the time. Since then, BSDE had issued five more global USD notes totalling USD1.095b with the latest one being in Jan'20.
- In 2020 total remuneration of the BOC and BOD and its consolidated subsidiaries were 17% of net profit.
- Moore Stephens has been the auditor of the company since its IPO in 2008.
- BSDE had exercised non pre-emptive rights issue (private placement) three times since its IPO where all the placements were subscribed by its major shareholder; SInarmas Land. The placement was done at IDR1,820 (13% premium to last closing price) in 2014 and IDR1,890 (7% discount to last closing price) in 2015 for additional capital of 5% each. The most recent was in June 2020 at IDR640 (22% discount to last closing price) for additional 10% of its capital.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Ciputra Development (CTRA IJ)

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Risk Rating & Score[1]	27.0 (Medium)
Score Momentum[2]	-4.7
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 15 Jul 2016)	2 - Moderate

Business Model & Industry Issues

- CTRA develops different types of properties through opening new greenfield or brownfield areas upon receiving a letter of recommendation and obtaining the required licences from both the local government and the Ministry of Agrarian and Spatial Planning/National Land Agency. They develop properties on non-forestry/conservatory land.
- As the pioneer and leading property development company in Indonesia, CTRA has adhered to the environment and social aspects for property development while enforcing integrity and professionalism as its core corporate culture.
- Being a labour-intensive industry, CTRA sets a high standard in occupational safety and workers' welfare.

Material E issues

- Each of CTRA's property development projects supports environmental sustainability through the creation of green open spaces in its public and social facilities. The government requires a minimum of 30% green open space for every building area being developed.
- For its residential developments, CTRA provides a composting facility for its waste management. All of its commercial properties use green building concepts to save energy and it allocates areas for green open spaces.
- Its Ciputra World 1 Jakarta mixed-use development project received a "Gold" certification from the Green Building Council Indonesia. The green initiatives include the use of infrared resistant glass to reduce AC usage, energy efficient lamps and escalators. The project also adheres to the open green space regulated by the local government.
- Its reclamation project in Makassar has obtained all the required permits for zoning regulation as well as environmental and biodiversity sustainability.

Material S issues

- High gender diversity with 59% of male employees and 41% females in 2019. Four out of seven (57%) of the BoC members are female. CTRA adheres to local minimum-wage regulations.
- CTRA enforces Health, Safety, Environment standards in every property development project. It aspires to create a disciplined, zero accident and lost injury time for its contractors and sub-contractors. As a result, there was a decline in frequency of work accidents in 2020 to 14 incidents vs 37 incidents in 2017.
- CTRA actively carries out various CSR activities and has allocated IDR15.4b to environmental, health, employment, social, religious and other activities.
- The Ministry of Public Housing Regulation requires property developers to develop balanced housing where for each high-end house built, two medium-segment houses and three low-segment houses need to be built.

Key G metrics and issues

- Business operations of the company are run by the board of directors (BoD), which are supervised by the board of committee (BoC), and assisted by an independent audit committee. There are no BoC members on the BoD.
- The BoC consists of seven members with three independent commissioners (43%). The BoD consists of 10 members. Four members of the BoC and BoD are related to the main shareholder (Sang Pelopor).
- The major shareholder controls 52.8% of total outstanding shares and has no business that has a conflict of interest with CTRA. All of its contractors and sub-contractors are non-related parties.
- The BoD holds meetings at least once a month and it's required to have periodic meetings with the BoC at least once every four months. In 2020 the joint meetings were held eight times.
- In 2020 total remuneration of the BoC and BoD of CTRA and its consolidated subsidiaries were c.10% of net profit.
- EY has been the auditor of the company for 11 years.
- CTRA completed the merger with its two publicly listed subsidiaries Ciputra Property and Ciputra Surya in 2017.

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Pakuwon Jati (PWON IJ)

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Risk Rating & Score[1]	26.9 (Medium)
Score Momentum[2]	na
Last Updated	1 Feb 2021
Controversy Score[3] (Updated: 1 Jan 2000)	0 – No Reported Incident

ESG@MKE

Business Model & Industry Issues

- PWON develops different types of properties by opening new greenfield or brownfield areas upon receiving a letter of recommendation and obtaining the required licenses from both the local government and the Ministry of Agrarian and Spatial Planning/National Land Agency. PWON develops properties on non-forestry/conservatory land.
- As the pioneer and leading developer in Indonesia, PWON adheres to the environment and social guideline for property development with high integrity and professionalism as its core corporate culture.
- Being a labour-intensive industry, PWON also employs a strict occupational health and safety management system. The company also holds regular social activities to serve its local communities.

Material E issues

- PWON's strong commitment to environment sustainability is realised in its implementation of Zero Environment Claim Policy in its operations. Through this policy, PWON aspires to reduce waste.
- PWON employs energy efficient designs for its property developments by using insulated glass for most of its roof to reduce air-conditioning and lighting use. It is also committed to conserving water consumption and supporting water catchment areas in its developments.
- Each of PWON's property development projects supports environmental sustainability through the creation of green open spaces in its public and social facilities. The government requires a minimum of 30% green open space for every building area developed. Each of the property development fulfils the environmental assessment by related governments.

Material S issues

- Increase in female employees to 29% of total staff in 2020 from 27% in 2019. One from three (33%) of the BOC members is female and two of six (33%) of the BOD members are female. PWON adheres to local minimum wage regulation.
- PWON is committed in providing continuous training and competency development for its employee and allocated funds of IDR1.1b in 2020.
- Implements the Occupational Health and Safety management system to guarantee the safety of all employees in carrying out their duties and responsibilities.
- Various social events held regularly to serve its surrounding communities, such as donations, SME empowerment, fund raising and health awareness campaigns.

Key G metrics and issues

- The company's business operations are managed by the board of directors (BOD), which are supervised by the board of committee (BOC) and assisted by an independent audit committee. There are no BOC members on the BOD.
- The BOC consists of three members with one independent commissioner (33%). The BOD consists of six members. One member of the BOC and one member of the BOD are related to the main shareholder Pakuwon Arthaniaga.
- The major shareholder control 69.7% of the total outstanding shares. All of its contractors and sub-contractors are non-related parties. Mr. Alexander Tedja (chairman) owns 10.6m (0.02%) of PWON's shares. Mr. Richard Adisastra (director) holds 131,040 shares. Other BOD and BOC members do not hold any shares of the company.
- The BOD holds meeting at least once a month and it's required to have periodic meetings with the BOC at least once every four months. In 2020, the joint meetings were held three times.
- In 2020, total remuneration of the BOC and BOD of PWON and its consolidated subsidiaries were 1.8% of EBIT.
- Deloitte has been the auditor of the company for 12 years.
- In 2014, PWON acquired 67.1% stake in Pakuwon Permai (PP), a related-party associate that controls several prime investment properties in Surabaya and Jakarta for USD192m. The key rationale for the acquisition is to significantly increase PWON's assets, which enables PWON to be the largest developer in terms of retail space NLA. The acquisition was fully funded by USD200m it raised in the same year. The arm-length acquisition was valued at 8.2x EV/EBITDA/ The remaining 32.9% is still controlled by an affiliated company Pakuwon Darma (PD), and PWON has no intentions of buying this stake from PD.

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; …; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Puradelta Lestari Tbk (DMAS IJ)

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Risk Rating & Score[1]	26.3 (Medium)
Score Momentum[2]	+0.0
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 9 Feb 2019)	0 – No Reported Incident

Business Model & Industry Issues

- DMAS develops and maintains industrial estates through opening new greenfield or brownfield areas upon receiving a letter of recommendation and obtaining the required licences from both the local government and the Ministry of Agrarian and Spatial Planning/National Land Agency. They develop properties on non-forestry/conservatory land. The company has an emphasis on green industrial estate development whereby it favours environmentally-friendly industries in its estates.
- The company sets high standards in occupational health, safety and workers' welfare which complies with the prevailing government regulations.
- Sojitz Corporation, a Japanese conglomerate company which is DMAS' strategic shareholder, has a big role in its development by instilling high standards for the industrial estates. With this, DMAS has competitive advantage in marketing its estates to multi-national companies (MNCs) seeking to invest in Indonesia.

Material E issues

- The company is certified for ISO 14001:2015 for Environmental Management System. DMAS operates its own water treatment plants to provide supply of clean water, as well as waste water treatment plants to process the waste from industrial activities. These conform to the Ministry of Health and Ministry of Environment regulations.
- DMAS' allocated areas for green space are more than the 10% minimum requirement regulated by the government. Moreover, they also create man-made lakes, and also own and develop nurseries for plants which will then be planted in its development areas. The green spaces create sufficient water catchment areas and provide fresh air.
- The Company has a dedicated environmental management team to guarantee environmental safety and comfort in Kota Deltamas, including maintenance of public facilities and infrastructure, and preserving the green environment.

Material S issues

- As of 2020, the total number of its women at workplace is 17%. The low percentage of women was due to the nature of its business.
- DMAS is committed in maintaining high standards of human resources processes to ensure that the principle of equality is being prioritised. The Company also ensures that employees' rights are always fulfilled where it abides with the Ministry of Manpower regulations and local minimum wage regulations.
- DMAS also believes that training and employee development are needed both for the general interests of the company and the personal interests of each employee. In 2020, the company has held 32 training sessions involving 309 employees.
- DMAS is also committed to improving the livelihood of the surrounding communities by providing many community development programs relating to health, public facilities, education, environment and lastly social aspects. In 2020, DMAS allocated higher CSR of c.IDR11b (2019: c.IDR1.2b).

Key G metrics and issues

- The company's business operations are managed by the board of directors (BOD), which are supervised by the board of committee (BOC) and assisted by an independent audit committee. There are no BOC members on the BOD.
- The BOC consists of six members with two independent commissioners (33%). The BOD consists of four members. Two members of the BOC and two members of the BOD are affiliated to the main shareholder, Sinarmas Land (A26-SG, NR) and two members of the BOC and one member of the BOD are representatives from Sojitz Corporation (2768-JP, NR), DMAS' second largest shareholder.
- The main shareholder is an entity under Sinarmas Group; a large conglomerate in Indonesia with businesses in the resources, financial, property and TMT sectors. The major shareholder controls 57% of the total outstanding shares, and it also owns a property development company; Bumi Serpong Damai (BSDE IJ). There is no inter-company ownership and transaction between BSDE and DMAS, and only irregular transactions with other Sinarmas Group companies. Its second largest shareholder is Sojitz Corporation which holds 25% of the company. Sojitz is a Japanese conglomerate headquartered in Japan.
- The BOD holds meetings at least once every month and it is required to have periodic meetings with the BOC at least once every four months. In 2020 the joint meetings were held six times.
- In 2020 total remuneration of the BOC and BOD and its consolidated subsidiaries were 0.8% of net profit.
- Moore Stephens has been the auditor of the company since its IPO in 2015.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Summarecon Agung (SMRA IJ)

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Risk Rating & Score[1]	29.1 (Medium)
Score Momentum[2]	-1.3
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 1 Jan 2000)	0 – No Reported Incident

Business Model & Industry Issues

- SMRA develops different types of properties through opening new greenfield or brownfield areas upon receiving a letter of recommendation and obtaining the required licences from both the local government and the Ministry of Agrarian and Spatial Planning/National Land Agency. They develop properties on non-forestry/conservatory land.
- As one of the leading developers in Indonesia, SMRA contributes to the government programme to improve home ownership in Indonesia. SMRA is expanding into new locations and it's building more affordable housing.
- Being a labour-intensive industry, SMRA applies best business practices for all of its stakeholders and sets high standards in occupational safety and workers' welfare.

Material E issues

- SMRA incorporates the best practices in its development projects to ensure environmental sustainability. All of its township promotes waste recycling. Since 2015, SMRA has incorporated energy saving features such as better airflow and heat insulation into its home designs.
- For its township developments, the masterplans meet and/or exceeds the minimum environmental assessments as prescribed by local authorities. The government requires a minimum of 30% green open space for every building developed, a ratio that SMRA has consistently met. SMRA provides sustainable water resources, utilities and waste management for its developments.

Material S issues

- Gender diversity is improving with 23.4% female employees in 2020 vs. 22.93% in 2019. SMRA adheres to local minimum wage regulation for all of its employees including their outsourced labour. SMRA applies best practices in its business and ensures workplace safety. No accidents were reported in 2020.
- In 2003, it set up the Summarecon Cares Foundation for various social and humanitarian causes. In 2019, SMRA donated to local school and orphanages, supported small businesses and regular blood donation events.
- SMRA's township development is designed to ensure a self-sustain community. Various public facilities such as hospitals, place of worship, schools and commercial building will be built to cater to residents.
- The Ministry of Public Housing regulation requires developers to have a balanced portfolio. Each high-end house built, two medium-segments houses and three low-end houses must be developed. SMRA is conforming to this regulation in its multi-segment residential projects.

Key G metrics and issues

- Business operations of the company are run by the board of directors (BoD), which are supervised by the board of committee (BoC), and assisted by an independent audit committee. There are no BoC members on the BoD.
- The BoC consists of five members with three being independent commissioners (60%). The BoD consists of eight members. Two members of the BoC and and three members of BoD are related to the main shareholder (Semarop Agung).
- The two major shareholder controls 40.4% of total outstanding shares and has no business that has a conflict of interest with SMRA. All of its contractors and sub-contractors are non-related parties.
- The BoD holds meetings at least once a month and it's required to have periodic meetings with the BoC at least once every four months. In 2020 the joint meetings were held four times.
- In 2020 total remuneration of the BoC and BoD of SMRA and its consolidated subsidiaries were IDR25.4b c.2% of EBIT.
- EY has been the auditor of the company for 11 years.
- There were several lawsuits regarding ownership of land in various locations. Management believes these litigations will have an immaterial impact on the company and they will be settled.
- In September 2015, SMRA sold its investment property in Kelapa Gading comprising of a mixed-use development (a mall and two hotels) to its 99.9% owned subsidiary, Summarecon Investment Property. This transaction is to consolidate all of its investment property assets into its specialised subsidiary, which enables future corporate actions in this business unit.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

5.8. Resources

- **The resources/mining sector has high ESG risk, not only from the products, but also from the source of energy used in the process.**
- **Business diversification is the key to reducing the sector's ESG risk, but so far, progress has been slow.**
- **Maintain NEUTRAL view on the sector with INCO and ITMG being our Top Picks.**

High risk

We think the sector has high ESG risk, which is mostly contributed by the mining products (coal) and source of energy (mostly fossil fuels) used in the mining activities. The government's plans to continue to impose high tax and royalty rates and carbon tax on sources of emissions are negative for business sustainability of the sector, in our view. This is not to mention another government plan to require coal companies to work on downstream projects, which are inefficient from a capital allocation perspective.

We think the social aspect of ESG is where mining companies under our coverage do well in. We understand they have good relationships with surrounding communities and implement good mining practices, leading to low fatality rates. We are not aware the mining companies have minimum-wage issues.

Slow to mitigate risks

We think one key to reducing exposure to fossil fuels is for mining companies to diversify both their business and source of energy to green sectors. However, we think these are the areas they are lacking in. While we understand that some companies, such as ADRO and UNTR, have diversified their businesses to non-thermal coal sectors, we think overall earnings (>60%) are still dependent on coal. Source of energy is another one we think mining companies are also lacking in. Almost 100% of fuels are still fossil fuel-based, and we are not aware of any concrete plans to diversify the fuels to alternative fuels.

Maintain NEUTRAL view

Maintain our NEUTRAL view on the sector. We prefer nickel to coal due to the former's more attractive supply-and-demand dynamics in the medium to long term. INCO is our preferred play for nickel as 100% of its business is exposed to nickel. For coal, we prefer ITMG as it has the highest exposure to seaborne markets (1Q21: 85% of total sales volume).

Fig 70: Mining sector – summary of ratings and valuations

Ticker	Rating	Price*, IDR	TP, IDR	Upside, %	Market cap, USD m	ESG Risk Rating***	Controversy Rating***	PER**, x	PBV**, x	Yield**, %	ROE**, %
ADRO	BUY	1,240	1,800	49.4	2,713	High	Low	7.0	0.7	4.3	9.9
AKRA	BUY	3,330	4,700	43.8	914	Medium	No evidence	14.9	1.4	2.7	10.0
INCO	BUY	5,250	7,000	33.3	3,568	Severe	Severe	43.1	1.7	0.0	4.0
ITMG	BUY	15,350	15,000	7.5	1,186	High	Moderate	7.7	1.2	9.7	16.9
PGAS	BUY	1,035	2,200	115.9	1,716	Medium	No evidence	12.1	0.7	3.3	6.1
PTBA	BUY	2,130	3,500	68.5	1,679	High	No evidence	8.3	1.3	4.2	16.6
UNTR	BUY	19,050	30,000	62.1	4,861	High	Moderate	8.6	1.1	4.7	13.2

* Based on closing prices as of 16 July 2021; ** based on 2021 earnings forecasts, *** derived from leading external ESG research and data provider Sustainalytics

Source: Bloomberg,Maybank Kim Eng, Sustainalytics

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Adaro Energy (ADRO IJ)

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Risk Rating & Score[1]	High risk (39.8)
Score Momentum[2]	+0.6
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 3 Mar 2021)	1

Business Model & Industry Issues

- The structural shift of worldwide energy consumption from fossil fuels to renewable energy has been negative for both thermal coal prices and the stock valuations. This seems to have outweighed ADRO's good operational and safety records, as well as its generally positive relationship with the surrounding communities.
- Several efforts have been made to lower dependence on thermal coal, including acquiring non-thermal coal assets and diversifying into the power sector. We think the full impact of these efforts will only be seen in around three years, though thermal coal will still be the backbone of ADRO's operations.
- Investing in renewable energy sectors is also an option for ADRO, potentially using green financing options – this could help to counterbalance the carbon emission from the thermal coal business. However, this initiative is still in the early stages, and it will take time for it to have a significant impact to ADRO's operations and earnings.

Material E issues

- Around 92% of ADRO's turnover is contributed by coal mining. It also has seven other business pillars i.e., services, logistics, power, land, water, capital, and foundation.
- The company has a 34% stake in 2,000MW power project, which uses the latest Ultra-Super Critical technology. The technology enables the power plant to use less coal, hence lowers pollution.
- All companies within the Adaro Group are required to meet all provisions imposed by their environmental permits and the prevailing regulatory requirements.
- ADRO is a pioneer in the sector in terms of its biodiesel plant which reduces consumption of diesel. As part of the government's programme, its diesel consumption is mixed (30%) with biodiesel.
- In 2018, Adaro Indonesia, ADRO's largest subsidiary, obtained ISO 14001 on environmental management, and in 2020, received Gold Rank (the highest rank) for environmental management from the Ministry of Environment and Forestry.

Material S issues

- At the end of 2019, c.89% of employees were male, 11% female. One out of three (33%) of the BoC members are female. No reports on below-minimum wage payments.
- Lost Time Injury Frequency Rate (LTIFR), which measures the number of work accidents resulting in the loss of workdays per one million working hours, was 0.06, lower than 0.13 in 2018.
- Severity Rate (SR), which measures the number of days lost per one million working hours, dropped to 5.5 in 2019 from 108.4 in 2018.
- ADRO actively builds good relationships with surrounding communities, by building basic infrastructure, providing scholarships, and developing small and medium enterprises. CSR-related expenditures in 2019 accounted for c.1% of net profit.

Key G metrics and issues

- Day-to-day operations of the company are run by the BoD, which are supervised by BoC, assisted by an independent Audit Committee. There are no BoC members sitting in the BoD.
- The BoC consists of four members, and two of them (50%) is an independent commissioner. The BoD consists of five members. Two members each of the BoC and BoD are related to the main shareholder (Adaro Strategic Investments).
- Shares of the BoC and BoD members account for 12.4% of total outstanding shares.
- The BoD holds meetings at least once a month and is also required to have periodic meetings with the BoC at least once in four months.
- In 2019 total remuneration of the BoC and BoD of ADRO and its consolidated subsidiaries were c.6.3% of net profit. Around 7% of the remuneration is related to post-employment benefits.
- In 2009, ADRO acquired a logistics company from a related party.
- In 2011, ADRO acquired 75% and 61% stakes at Mustika Indah Permai and Bukit Enim Energi. Both have not been producing coal, which is partly due to weak coal prices.
- In 2012, ADRO acquired 10% stakes at Bhakti Energi Persada (BEP) from a related party.
- PwC has been the auditor of the company for more than 10 years.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

AKR Corporindo Tbk (AKRA IJ)

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Risk Rating & Score[1]	Medium risk (26.7)
Score Momentum[2]	-0.8
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 01 Jan 2000)	0

Business Model & Industry Issues

- AKRA is working on three main areas 1) energy efficiency, 2) reduction of greenhouse gas emissions via focus on renewables and clean energy and 3) environment conservation, rehabilitation, and biodiversity.
- Shift of energy usage to renewable energy could be negative for demand of fossil fuels, such as petroleum and coal. The negative impact is mitigated by the blend of AKRA's petroleum products with biodiesel. Compliance with the government's biodiesel programme is a plus and helps to support sustainable operations and manage market perceptions.
- Social aspect of AKRA's business looks satisfactory with the company's active and positive relationships with its surrounding communities.

Material E issues

- Around 70-75% of AKRA's turnover is generated from fuel distribution.
- In line with the government's programme to reduce imports of petroleum, AKRA has blended 30% of its fuel with biodiesel. The proportion has increased compared to 20% in 2019. The government targets to increase the biodiesel portion to 40% by end of 2020.
- There were no environmental issues (pollution, leakages) for its petroleum business in the past.
- Its industrial business received integrated ISO certification in 2019 which covers, among others, environmental management and Occupational Health and Safety Management. The business will also build a gas-fired power plant to support operations,

Material S issues

- The S aspect of AKRA's ESG implementation covers human capital, product and occupational safety, and customer engagement.
- At the end of 2019, 90% of employees were male, 10% female. Three out of seven (43%) BoD members are female. No reports of below-minimum wage payments.
- Employees are required to sign an integrity pact which prohibits them from corruption practices.
- AKRA was given Zero Accident Award by the Ministry of Manpower.
- There are no issues with its surroundings. AKRA actively engages the surrounding societies by providing, among others, scholarships, health facilities, etc. CSR-related expenses were c.0.5% of 2019 earnings.

Key G metrics and issues

- AKRA The Company has implemented ASEAN Corporate Governance Scorecard, issued by ASEAN Capital Markets Forum (ACMF) and the Asian Development.
- Several policies have been put in place for the governance implementation: Articles of Association, Board of Directors (BoD) and Board of Commissioners (BoC) guidelines, Audit Committee Charter, Internal Audit Charter, Nomination and Remuneration Committee Charter, Risk Management policy, Whistleblowing System & Anti-Corruption Policy, and Code of Conduct.
- Day-to-day operations of the company are run by the BoD, which are supervised by BoC, assisted by an independent Audit Committee. There are no BoC members sitting in the BoD.
- The BoC consists of three members, and one of them (33%) is an independent commissioner.
- One member of each BoC and BoD is related to the main shareholder (PT Arthakencana Rayatama).
- The BoC must hold a meeting at least once every two months. It also must hold at least a meeting every four months with the BoD.
- In 2019 total remuneration of BoC and BoD accounted for c. 0.3% of sales and c. 9% of net profit. Around 9% of the remuneration is related to stock-option transactions.
- Shares of BoC and BoD members account for 0.67% of total outstanding shares. Note that the main shareholder of AKRA is a related party to the President Commissioner and CEO.
- Ernst & Young has been the auditor of the company for more than 10 years.
- There was no material conflict of interest transactions in the past

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Bukit Asam (PTBA IJ)

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Risk Rating & Score[1]	High risk (34.1)
Score Momentum[2]	-
Last Updated	22 May 2021
Controversy Score[3] (Updated: 28 Mar 2020)	0

Business Model & Industry Issues

- Worldwide structural shift to renewable energy to reduce pollution has been negative for coal demand and lowered market interest in the sector, and as such PTBA's valuations have derated.
- While PTBA started investing in renewable energy, we think the investments are still smaller than those for coal-fired power plants. We do not think the investments in renewable energy will have a significant positive impact in the short-medium term in terms of changing its image as a coal company, but it is a step in the right direction.
- One way to improve market interest is for PTBA to execute its projects well, which in our view has been poor in the past.
- PTBA's business sustainability looks solid with mining life over 100 years and good relationships with surrounding communities.

Material E issues

- Officially implemented in 2018, PTBA is committed to carry out responsible and sustainable mining activities (Green Mining).
- PTBA is committed to developing areas that have been mined to be managed responsibly through reclamation, revegetation, and post-mining activities. It performs this mandate in accordance with laws and regulations and includes stakeholders in its implementation.
- To add value to the environment, PTBA has started to invest in renewable energy by working together with Angkasa Pura II (AP2), an airport operating SOE. The main project is developing Rooftop Solar Photovoltaic in AP2 airports.
- PTBA's environmental management system is based on the international standard (ISO 14001: 2004).
- In 2019 PTBA received an award for forest reclamation and watershed rehabilitation from the Ministry of Environment and Forestry.

Material S issues

- CSR is a medium through which PTBA builds positive relationships with all stakeholders, both internal and external. The CSR policy is divided into seven aspects: CSR management, fair operations, human rights, environment, employment, health and work safety, product and customer responsibility, and social community developments.
- CSR funds for 2019 were c. 6.2% of earnings.
- PTBA's code of ethics applies to both leaders and employees. Main coverage includes integrity, conflict of interest and insider trading.
- At the end of 2019, around 88% of employees were male.
- In 2019, PTBA recorded zero operational accidents and won an award on the OHS (Occupational Health Services) Management System from the Ministry of Labour.

Key G metrics and issues

- GCG principles at PTBA are based on several standards such as General Guidelines on Indonesian GCG issued by the National Committee on Governance (KNKG), Superior Performance Assessment Criteria (KPKU) document by the Minister of SOEs, and the Indonesian Corporate Governance Road Map issued by the Financial Services Authority (OJK).
- Government of Indonesia (GoI) owns PTBA indirectly (65% of series B shares) via its 100%-owned Inalum. Inalum acquired its PTBA stake from GoI in 2017 as part of the restructuring of government ownership in SOEs.
- GoI also owns one series A share which gives it four main authorities on 1) appointment of Board of Commissioners (BoC) and Board of Directors (BoD), 2) change of capital structure, 3) change of articles of association and 4) divestments.
- Shareholder meeting is PTBA's highest decision-making body. BoD is an executive body responsible for daily operations of PTBA. Meanwhile, BoC is a non-executive shareholder-representative body, with the main objective of supervising and monitoring the BoD's activities. The BoC is assisted by several committees, including an internal audit.
- The BoC consists of six members (all male), and two of them (33%) are independent commissioners. The BoD consists of five members (two are female), but there are no independent directors. There are no BoC members sitting on the BoD, and vice versa.
- PTBA's shares owned by the BoC and BoD members are very minimal.
- In 2019, total remuneration for the BoC and the BoD was c. 2.4% of earnings. It consists of salary and allowances (24%), bonus (72%) and position insurance (4%).
- PTBA has several projects to monetize its coal reserves. However, the execution has been slow due to uncertainty in government regulations on electricity.
- PwC has been the auditor of the company for more than 10 years.

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Indo Tambangraya (ITMG IJ)

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Risk Rating & Score[1]	High risk (37.1)
Score Momentum[2]	+0.5
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 02 Nov 2018)	2

Business Model & Industry Issues

- The structural shift of worldwide energy consumption from fossil fuels to renewable energy has been negative for both thermal coal prices and the stock valuations. This seems to have outweighed ITMG's good operational and safety records, as well as its generally positive relationship with the surrounding communities.
- ITMG's lack of clarity in the business diversification is a negative factor which will impact its business sustainability,
- ITMG will also face regulatory challenges in medium to long term post expiry of its contracts as the government targets to increase revenues from coal companies and require them to invest in coal diversification programmes in exchange for contract extension.

Material E issues

- All ITMG's mining operations are based on environmental standards set by the government. ITMG takes this seriously and did not receive any sanctions related to alleged violations of environmental management laws and regulations in the past.
- In 2015, ITMG obtained ISO 14001 certification on environmental management.
- In 2019, one of its five mines received Green Rank (the second highest rank) and the other four Blue Rank (the third highest rank) for environmental management from the Ministry of Environment and Forestry.
- To support environmental management, including efforts to mitigate the environmental impacts of mining operations and coal production, in 2019 ITMG allocated USD19.2m, which was down 27% YoY and accounted for 14.8% of earnings. They include, among others, performing land revegetation with cover crops and reclamation & revegetation according to ITMG's reclamation plan.

Material S issues

- ITMG has Code of Conduct and Anti-Corruption policies in place, which apply to all top management and employees.
- At the end of 2019, c.89% of employees were male, 11% female. One out of seven (14%) of the BoC members are female. No reports on below-minimum wage payments.
- ITMG targets zero accidents in workplace, but in 2018-19 there was one accident in each year. None of the accident was fatal.
- ITMG builds good relationships with surrounding communities through various education, health, infrastructure, economic, social, and cultural programmes. In 2019 ITMG spent IDR24.7b (1.3% of 2019 earnings) for activities related to assistance to rural communities around the mining areas.

Key G metrics and issues

- ITMG is a subsidiary of Banpu, one of leading energy companies in Thailand.
- Day-to-day operations of the company are run by the BoD, which are supervised by BoC, assisted by an independent Audit Committee. There are no BoC members sitting in the BoD.
- The BoC consists of seven members, and three of them (43%) are independent commissioners. The BoD consists of nine members. Three and two of the members of the BoC and BoD are related to the main shareholder.
- Shares of the BoC and BoD members account for 0.12% of total outstanding shares.
- The BoD holds meetings at least once a month and is also required to have periodic meetings with the BoC at least once in four months.
- In 2019 total remuneration of the BoD of ITMG, which consists of fixed and variable elements, was c.1.95% of net profit. In 2019, the Company did not provide long term incentives or stock options to the BoD.
- There were no regulatory issues faced by ITMG in the past five years.
- There were no related-party M&A deals between ITMG and Banpu since the former's listing in 2007. However, Banpu is ITMG's sole marketing agent for export markets.
- PwC has been the auditor of the company for more than 10 years.

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Perusahaan Gas Negara (PGAS IJ)

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Risk Rating & Score[1]	Medium (28.4)
Score Momentum[2]	-0.7
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 21 Dec 2012)	0

Business Model & Industry Issues

- Government intervention in the gas sector is the market's main concern, offsetting PGAS' strategic position (the largest gas distributor in Indonesia) in the clean energy sector. This in our view has weakened investors' appetite in the company and de-rated valuations.
- One effective way for PGAS to improve valuations is to divest its O&G assets and focus on its core business (gas distribution and transmission).
- While PGAS has a generally positive relationship with stakeholders and surrounding communities, we think its business sustainability depends on its ability to secure gas supplies. We estimate contracts of c. 55% of 2019 gas distribution volume will expire in 2023, and only 20% has been renewed/extended.

Material E issues

- Adopted in Oct 2018 PGAS' environmental policy is part of its Occupational Safety and Health, Security and Environmental and Energy Management Policy and emphasises the principles of prevention, risk management throughout the entire life cycle, compliance with regulations, participation, environmental protection, and continuous improvement. It also has an Environmental Transformation Road Map as a basic reference for achieving business goals.
- In 2019 PGAS received Green PROPER rating, the second highest rating, on environmental management and community empowerment from the Ministry of Environment and Forestry. It indicates that PGAS' practices have exceeded compliance.
- In 2019, consumption of renewable energy (water) increased 12% YoY and greenhouse gas emission dropped 7% YoY. There are no definitive targets on this front.
- PGAS has ISO 14001: 2015 on environmental management.

Material S issues

- PGAS is committed to improving the welfare of its surrounding communities by providing assistance in the fields of education and health. In 2019, it spent c.9% of earnings on CSR and community development funds.
- It also has policies in place to prevent corruption and has received an award from Indonesia's Corruption Eradication Commission (Komisi Pemberantasan Korupsi/KPK), for the third time, as a Company with Best Reporting of State Assets (LHKPN). One of its BoD members has a KPK background, suggesting PGAS' commitment on this front.
- In the next 3-5 years PGAS plans to implement HSSE (Health, Safety, Security, Environment) culture excellence throughout its operations.
- In 2019 PGAS' safe man hours were 104.7m, +11% YoY.
- At the end of 2019, 75% of employees were male, slightly higher than 2018's 74%.

Key G metrics and issues

- Government of Indonesia (GoI) owns PGAS 1) directly via one series A share and 2) indirectly (57% of series B shares) via its 100% owned Pertamina (oil & gas SOE).
- GoI transferred its series B shares to Pertamina in 2018 as part of the SOE ownership restructuring.
- Through series A share, the GoI has four main authorities on 1) appointment of Board of Commissioners (BoC) and Board of Directors (BoD), 2) change of capital structure, 3) change of articles of association and 4) divestments.
- General meeting of shareholders is the Company's body with the highest authority. BoD runs daily operations of the company. BoC's functions are to supervise the BoD's activities and to provide advice to the BoD. According to regulations, the BoC is required to have at least one internal meeting every two months and one joint meeting with the BoD every four months.
- The BoD and BoC consists of six members each (all male). Three of the BOC members (50%) are independent commissioners. No BoC members sit on the BoD, and vice versa.
- In 2019, total remuneration for the BoD was c.10% of net profit, which consisted of salaries (17%), allowances (46%) and bonuses (37%). It was higher than other resources companies under coverage. There is no information on BoD and BoC's ownership at PGAS.
- Acquisition of O&G assets in 2014-15 turned out to be not earnings positive for PGAS, in our view, due to its lack of expertise and declining oil prices.
- In 2019 PGAS acquired a gas distribution company (Pertagas) from Pertamina by issuing new shares to the latter. According to management, even though PGAS still keeps its O&G assets, it prefers to divest them so that it can focus on its distribution business.
- In 2010 two BoD members were charged guilty by KPK for corruption in the gas distribution project in East Java. PGAS has since enforced its internal system by, among others, implementing codes of ethics for both employees and leaders and working with KPK for prevention.
- PwC has been the auditor of the company since 2016.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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United Tractors (UNTR IJ)

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Risk Rating & Score[1]	High risk (36.1)
Score Momentum[2]	-0.4
Last Updated	15 Apr 2021
Controversy Score[3] (Updated: 21 Apr 2017)	2

Business Model & Industry Issues

- UNTR has demonstrated serious commitments towards ESG by successfully generating sustainable added value for stakeholders via three balanced economic, social, and environmental aspects. These are achieved through high standards of mining practices, moving towards non-thermal coal business in the medium to long term and maintaining positive relationships with all stakeholders.
- Since 2015, it started to reduce reliance on the thermal coal business by investing in construction and gold mining. It is also open to investing in the renewable energy sector. It will take time for these efforts to show results, but we think this should partially offset investors' negative sentiment on the coal sector, which will be longer-term positive for valuation.
- UNTR has good relationships not only with its employees, but also with its surrounding communities, to some extent balancing the negative impact of its operations.

Material E issues

- UNTR's environmental management covers three aspects: reduction of the use of natural resources and improvement of energy efficiency, reduction of waste, emission and greenhouse gas effect, and waste management programme. Since 2014 the three areas have shown improving trends.
- UNTR's Jawa-4 coal-fired power plant, which is being built, uses ultra-supercritical boiler technology that has higher plant efficiency and lower CO2 emissions.
- UNTR has ISO 14001-2015 accreditation on environmental management. It also won Green PROPER award (the second highest) on environmental management from the Ministry of Environment and Forestry in 2019, suggesting that UNTR's environmental practices are higher than requirements.

Material S issues

- All operational activities, especially mining operations and construction industry, must meet the principles of Occupational Health and Safety (OHS) excellence.
- One of the OHS objectives is to achieve Zero Lost Time Injury in all operating areas. In 2019, UNTR's OHS performance improved significantly as the number of major injuries dropped 4% YoY and there was no work-related illness.
- UNTR guarantees equal rights for all employees to get opportunities for competency and career development without discriminatory practices relating to ethnicity, religion, race or gender. Due to the nature of employment in its businesses, 98% of employees were male as at end-2019.
- In 2019, UNTR budgeted IDR153b (1.4% of earnings) for CSR initiatives, relating to programmes in community economic empowerment, education, environment, health, disaster response, employee welfare and donations to support other social activities.

Key G metrics and issues

- UNTR is committed to implementing GCG principles in every business activity to create a corporation of integrity and trustworthiness. The GCG principles are based on not only the laws and regulations, but also best practices that benefit shareholders, stakeholders, and surrounding communities.
- Majority of the shareholder is Astra International (ASII IJ; 59.5%), which is owned by Jardine Cycle & Carriage (50.1%),
- Shareholder meeting is the company's highest decision-making body.
- Board of Directors (BoD), which runs day-to-day operations of the company, consists of six members (all male); one of which (17%) is an independent director.
- Meanwhile, Board of Commissioners (BoC), which supervises BoD, consists of six members (all male. 50% of them are independent commissioners. In carrying out its supervisory duties, the BoC is assisted by Audit Committee and Nomination and Renumeration Committee
- There are no BoC members sitting in the BoD, and vice versa.
- Based on 2Q20 financial statement, shares of the BoC and BoD members at UNTR was negligible.
- In 2019 total compensation to key management personnel accounted for c.1.9% of earnings, which was low compared to other mining companies. Around 86% was for short-term benefits and 14% was for long-term and post-employment benefits.
- UNTR acquired several greenfield coal assets during the last coal price peak. UNTR has impaired those assets due to their lack of economic viability.
- PwC has been the auditor of the company for more than 10 years.

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Vale Indonesia (INCO IJ)

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Risk Rating & Score[1]	Severe risk (62.0)
Score Momentum[2]	-0.0
Last Updated	14 Apr 2021
Controversy Score[3] (Updated: 19 Sep 2019)	5

Business Model & Industry Issues

- The overall image of the mining industry from an ESG perspective is generally less positive due mainly to concerns about mismanagement of the environment, which could negatively impact valuations and investor appetite for the sector.
- However, INCO, in our view, has made ESG one of its main priorities. It has been conducting rigorous mining best practices based on the International Council on Mining and Metals framework principles and benchmarks set up by its parent company (Vale SA). Some of the positive results include zero fatalities and improved relationships with its stakeholders.
- INCO's contract expiration in 2025 could be a concern, but we think this will be partially offset by its major shareholders' (Vale SA and Sumitomo) decision to divest a 20% stake to Inalum, an SOE mining company.

Material E issues

- INCO is committed to adhering to legal provisions on environmental management. In 2019, environmental costs accounted for 18% of net profit, up from 2018's 11%.
- Hydroelectric power, INCO's largest source of energy supply, accounts for c.36% of total energy consumption. In 2019 INCO allocated c.3% of total hydroelectric power, through PLN (SOE power company), to its surrounding areas. INCO's consumption of diesel is mixed with biodiesel (30%). Proportion of biodiesel to fossil fuel in 2019 was 5.6%, up from 2017's 3.3% and 2018's 3.8%.
- Since 2019, INCO has been operating renewable-based electric boilers, the first in Southeast Asia, which will increase efficiency and reduce consumption of oil.
- INCO is committed to maintaining S02 emission levels to below the government standard (0.86 mg/Nm3).
- In 2019 INCO was awarded the Green PROPER rating on environmental management and community empowerment from the Ministry of Environment and Forestry. It is the second highest award and indicates INCO's practices have exceeded compliance.
- INCO has ISO 14001: 2015 on environmental management.

Material S issues

- INCO's Code of Ethics and Conduct covers health and safety, human rights, employee relationships, competition, business ethics, and corruption.
- INCO does not employ child and/or forced labour and is committed to no discriminatory practices against employees. Most employees are male (92% in 2019). The proportion has been stable. In 2019 there were five employees with disabilities, four men and one woman.
- INCO is committed to empowering its surrounding communities. It has Community Development and an Empowerment Programme (PPM) for 2018-22. In 2019 it allocated PPM funds equivalent to 6% of earnings.
- INCO uses Mining Safety Management Standards for management of Occupational Safety and Health and recorded no fatal accidents in 2017-19.

Key G metrics and issues

- General meeting of shareholders is the Company's body with the highest authority.
- Board of Directors (BoD) run daily operations of the company. Based on INCO's Articles of Association, it consists of at least three members but not more than 10. It consists of six members; one of them (17%) is female.
- BoC supervises the BoD's activities and consists of five members (all male). Two of them (40%) are independent commissioners. There is no BoD member on the BoC and vice versa. The BoC holds a meeting at least once every two months.
- There is no disclosure on INCO shares that are owned by the BoC and BoD members.
- In 2019, total remuneration for the BoD was c. 6% of net profit, which consisted of salaries, short-term employee benefits and post-employment benefits. No percentage details on the breakdown of each component.
- The newly passed mining law gives central government more authority to both set mining policies and issue mining licences. We believe this will lower the probability of "regulatory conflict" between central and regional governments.
- INCO did not do any M&A in the past. It did not have any material related party transactions either that were negative to minority interests.
- PwC has been the auditor of the company for more than 15 years.

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BUY	Return is expected to be above 10% in the next 12 months (including dividends)
HOLD	Return is expected to be between 0% to 10% in the next 12 months (including dividends)
SELL	Return is expected to be below 0% in the next 12 months (including dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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