



## Slow Start for January Effect

### JCI Performance as of January 2020: Weakening by 0.97% YTD in line with declining Capital Inflow

JCI Index slipped 0.97% YTD to 6,238 level on 21 January 2020, which is inversely proportional to the JCI growth of 4.14% YTD on 21 January 2019. Net foreign inflow continued to decline at IDR2.27 trillion in 21 January 2020 (-75.50% YoY) as well as the decrease in average daily trading value at the level of IDR6.35 trillion (-29.18% YoY). The net inflow mentioned is much lower compare to 21 January 2019 which recorded net foreign inflow worth IDR9.26 trillion (+183.29% YoY) with average daily trading value at IDR8.96 trillion (+10.35% YoY). We note that the declining net inflow was due to several factors, such as: 1) Concerns over the uncertainty towards global economy due to US-China Trade War, despite the phase 1 trading agreement being rectified; 2) The Snowballing Effect from the systemic errors in investment management and fraud by several local mutual funds which caused the instability in capital market and led the investors distrust.

### Will January Effect still occur this year?

Historically, JCI recorded a positive return throughout January, with 5-years average growth of 2.21%. MNCS believes that the JCI upward momentum in January 2020 will potentially continue to happen this year supported by: 1) Controlled inflation rate at 2.72% YoY in FY19, in line with 2019 APBN Projection at 3.5%±1; 2) IDR strengthening to continue to 3.93% YoY at the level of IDR13,669/USD; 3) Indonesia foreign exchange reserves are increased at the level of USD129.18 billion in Dec-19 equivalent to 7.6 months of imports financing, above the international adequacy standard; 4) Rising commodity prices such as CPO (+29.69% YoY), Nickel (+15.81% YoY), Gold (+21.69% YoY) and Oil (+8.44% YoY); 5) Omnibus Law policy which will gradually reduce corporate tax rate from 25% to 22% in FY21-22F and 20% in FY23F has the potential to increase companies Earnings in FY21F. MNCS projects EPS IHSG to grow around 10%-12% in FY21F (vs 5% in FY19E and 5.38%-8.00% in FY20F).

### Investment Theme of MNCS 1H20E: Focus on Blue Chip and Dividend Player

MNCS believes that the JCI movement in 1H20E will still be affected by both global and domestic sentiments include: 1) Trade disputes between US and China, Iran, Eurozone, Mexico, Canada, and other countries which caused the slowdown in global economy; 2) Potential big rebalancing on MSCI and FTSE Index in 1H20E; 3) The global economic slowdown predicted by World Bank from 3% in FY18 to 2.4% in FY19E and 2.5% in FY20F followed by the anticipation of China economic slowdown below the level of 6%; 4) Widening CAD. Therefore, MNCS estimates JCI to grow **moderately in 1H20E at the level of 6,371 (Moderate Scenario; PE20E: 15.09x; probability level 45%)** with **Pessimistic Scenario at the level of 5,601 (PE20E: 13.61x; probability level 55%)**. MNCS implements a defensive strategy in the midst of high stock market volatility in 1H20E by focusing on the **Consumer Sector (Overweight), Telco Sector (Neutral) and Banking Sector (Neutral)**, particularly on high-yield dividend stock and Dividend Payout Ratio such as **HMSP (BUY; TP: IDR2,750), GGRM (BUY; TP: IDR63,000), UNVR (BUY; TP: IDR9,400), TLKM (BUY; TP: IDR4,700), BMRI (BUY; TP: IDR8,500) and BBRI (HOLD; TP: IDR4,900)**. Meanwhile, there is potential for short-term strengthening in the **Coal and Metal Mining Sector (Neutral)** with the top picks are **ADRO (HOLD; TP: IDR1,535), MDKA (BUY; TP: IDR1,400) and CPO Sector (Neutral)** with **LSIP (BUY; TP: IDR1,400)** amid global geopolitical risks and rising in commodity prices.

#### Head of Institutional Research

Thendra Crisnanda  
thendra.crisnanda@mncgroup.com  
(021) 2980 3111 ext. 52162

#### Research Analyst

Victoria Venny  
victoria.nawang@mncgroup.com  
(021) 2980 3111 ext. 52236

Exhibit 01. MNCS Top Picks in 1H20E

Ticker	Index Weight (%)	Rating	Target Price (IDR)	PER FY20E (x)	PBV FY20E (x)	ROE FY20E (%)	Dividend Yield FY20E (%)
BBRI	7.95	HOLD	4,900	14.01	2.50	17.86	3.17
BMRI	4.96	BUY	8,500	11.42	1.60	14.14	3.49
TLKM	5.37	BUY	4,700	13.84	3.19	24.20	4.34
UNVR	4.43	BUY	9,400	42.00	16.31	38.85	2.22
HMSP	3.50	BUY	2,750	16.55	6.50	39.30	5.44
GGRM	1.53	BUY	63,000	14.67	2.14	14.59	4.43
ADRO	0.63	HOLD	1,535	6.29	0.67	10.61	7.58
MDKA	0.36	BUY	1,400	17.59	2.84	17.10	NA
LSIP	0.12	BUY	1,400	33.82	1.01	3.00	1.18

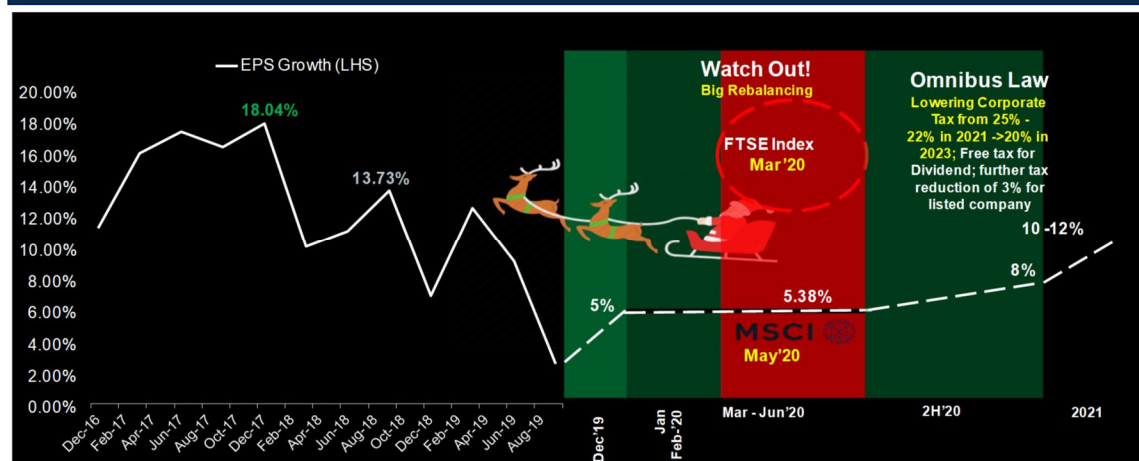
Source: Bloomberg as of 21 January 2020, MNCS Est.

Exhibit 02. JCI Positive Return throughout January with 5-year average of 2.21%



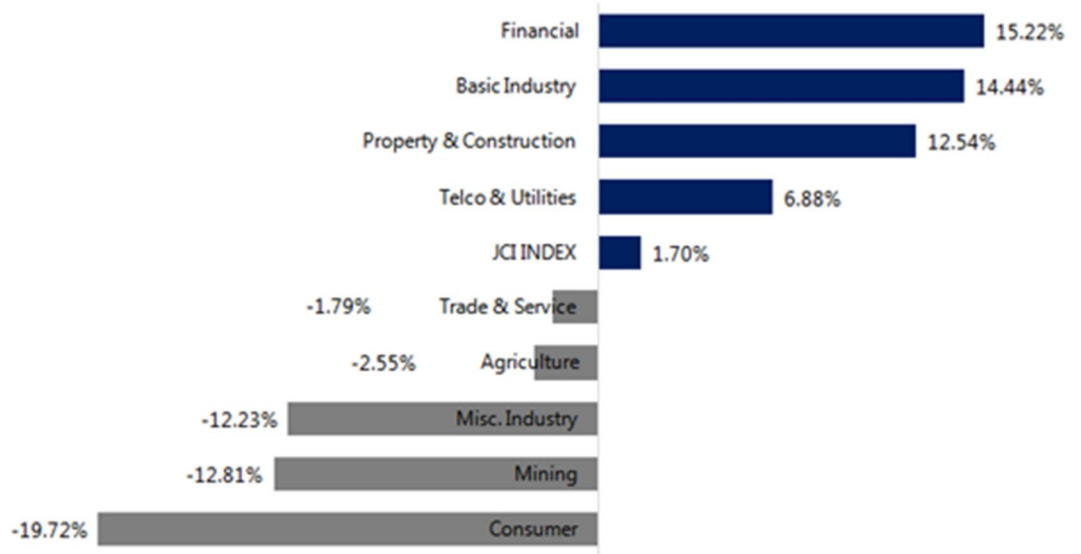
Source: Bloomberg

Exhibit 03. Outlook 2020: Downward Until 1H20E, Upward Potential in 2H20E



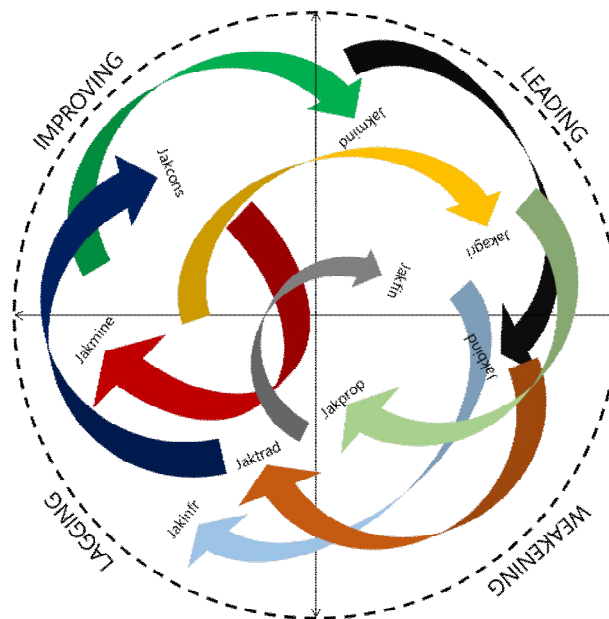
Source: MNCS

Exhibit 04. Sector Performance in FY19



Source: Bloomberg, MNCS

Exhibit 05. Sector Rotation



Source: Bloomberg, MNCS

## MNC SEKURITAS RESEARCH TEAM

### Thendra Crisnanda

Head of Institutional Research, Strategy  
thendra.crisnanda@mncgroup.com  
(021) 2980 3111 ext. 52162

### Victoria Venny

Banking, Small-Mid Cap, Telco  
victoria.nawang@mncgroup.com  
(021) 2980 3111 ext. 52236

### Jessica Sukimaja

Consumer, Plantation, Property  
jessica.sukimaja@mncgroup.com  
(021) 2980 3111 ext. 52307

### I Made Adi Saputra

Head of Fixed Income Research  
imade.saputra@mncgroup.com  
(021) 2980 3111 ext. 52117

### Muhamad Rudy Setiawan

Construction, Oil & Gas, Property  
muhamad.setiawan@mncgroup.com  
(021) 2980 3111 ext. 52317

### Catherina Vincentia

Automotive, Coal Mining, Metal Mining  
catherina.vincentia@mncgroup.com  
(021) 2980 3111 ext. 52306

### Edwin J. Sebayang

Head of Retail Research, Technical  
edwin.sebayang@mncgroup.com  
(021) 2980 3111 ext. 52233

### Aqil Triyadi

Research Associate  
aqil.triyadi@mncgroup.com  
(021) 2980 3111 ext. 52313

### T. Herditya Wicaksana

Technical Specialist, Cement  
herditya.wicaksana@mncgroup.com  
(021) 2980 3150 ext. 52150

## MNC SEKURITAS EQUITY SALES TEAM

### Andi Abidin

Associate Director Institution & High Network  
andi.abidin@mncgroup.com  
(021) 2980 3111 ext. 52170

### Harun Nurrosyid

Manager Equity Institution  
harun.nurrosyid@mncgroup.com  
(021) 2980 3111 ext. 52187

### Agus Eko Santoso

Manager Equity Institution  
agus.santoso@mncgroup.com  
(021) 2980 3111 ext. 52185

### Wesly Andri Rajaguguk

Head of Institutional Equity Sales  
wesly.rajaguguk@mncgroup.com  
(021) 2980 3111 ext. 52341

### Ibnu Ramadhan

Institutional Equity Sales  
ibnu.ramadhan@mncgroup.com  
(021) 2980 3111 ext. 52178

### Nesya Kharismawati

Manager Equity Institution  
nesya.kharismawati@mncgroup.com  
(021) 2980 3111 ext. 52182

### Okhy Ibrahim

Manager Equity Institution  
okhy.ibrahim@mncgroup.com  
(021) 2980 3111 ext. 52180

### MNC Research Investment Ratings Guidance

**BUY** : Share price may exceed 10% over the next 12 months  
**HOLD** : Share price may fall within the range of +/- 10% of the next 12 months  
**SELL** : Share price may fall by more than 10% over the next 12 months  
**Not Rated** : Stock is not within regular research coverage

### PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16  
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340  
Telp : (021) 2980 3111  
Fax : (021) 3983 6899  
Call Center : 1500 899

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