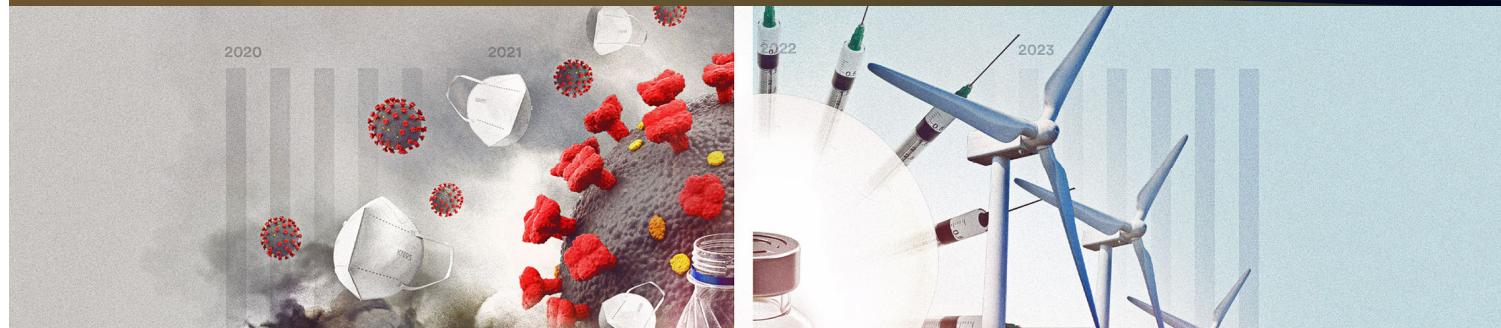


INVESTMENT STRATEGY REPORT

MNC Sekuritas Research Division | January 18, 2021



Recovery Story After the Big Reset

Investment Highlight: The investment theme of "Recovery Story after The Big Reset" reviews the attractiveness of investment in the Indonesian stock market after the negative impact of COVID-19. The JCI experienced a very significant decline of -37.48% to the level of 3,938 (March 24, 2020) due to investor panic over the health crisis which was feared to continue into an economic recession. Nevertheless, the reversal of direction on the stock market occurred very quickly, supported by: 1) The amount of US stimulus reached USD3 trillion; 2) Optimism of vaccine distribution; 3) The results of the US Election, namely the Blue Wave Scenario, succeeded in pushing the JCI to close at the level of 5,979 (-5.1% YTD) at the end of 2020. MNCS Institutional Research Team prioritized several cyclical and value stock sectors, especially the banking, mining, plantation and telecommunications sectors as the main picks. However, we are also looking at the consumption sector amidst the current downturn as it offers attractive valuations and potential recovery in 2H21. JCI is projected to grow to: 1) Base Case: 6,320; 2) Bull Case: 7,221; Bear Case: 5,651.

From Fear to Greed : JCI Index Rose by 25.67% since Nov'2020 to Mid Jan'21

JCI had recorded a significant decline of -36.67% YTD to the level of 3,989 on March 23, 2020. This was due to the fear of the COVID-19 pandemic affecting PSBB throughout Indonesia. Nevertheless, the recovery of the Indonesian stock market has occurred very quickly along with optimism over the COVID-19 vaccine and stimulus from developed countries which are believed to return to developing countries, especially Indonesia. The JCI recorded a significant increase of 25.67% from the 5,115 level (Nov 2nd 2020) to the level of 6,428 (Jan 14th 2021).

Euphoria of Vaccine and Economic Recovery in midst of Revival of Domestic Investor

The uprising momentum for JCI will continue in 2021, driven by optimism over the vaccine injection which has started on January 14th, 2021 and expectations of economic recovery. Indonesia's economic growth rate is projected to recover from -2% in FY20E to 4.5% - 5.5% in FY21F. President Jokowi gave confidence to the market by being the first person to receive the Sinovac vaccine injection. The efficacy of the Sinovac vaccine in Indonesia reaches around 65% and has met the minimum limit of the WHO at 60%, which is expected to encourage the recovery of the health crisis in Indonesia and ultimately have a positive impact on economic growth in 2021.

Stock Market Influencers through "xxxMology" Phenomenon are in the Hype Trend

MNCS observes that currently most of the acquaintances, friends or even informal workers who never knew or even wanted to invest in stocks have now become extraordinarily aggressive in becoming investors in the capital market. This is of course what drives the many influencers in the capital market to transform into market movers on social media.

Investment Strategy 2021 : Watch for Healthy Correction in Short Term, Still Bull for Long Term

MNCS believes that the bullish momentum of JCI is still ongoing in FY21F. Some of the main risks to consider for the potential decline in the JCI in the short term: 1) The increase in COVID-19 cases in Indonesia, which continued to record an all time high, reached over 11,000 cases per day; 2) Mutation of the COVID-19 virus and the emergence of negative issues over the efficacy of the Sinovac vaccine; 3) The increasing political tension in the US awaits the inauguration of the US President;

Economic Recovery is underway; Move to Cyclical Sector and Valued Stock

Prospective sectors to be invested in in 2021 are: 1) Banking Sector; 2) Mining Sector; 3) Plantation Sector; 4) Telecommunication Sector; 5) Digital and ESG Sector. MNCS recommended several main preferred stocks that serve as proxies for economic recovery, such as: **BBNI (BUY; TP: IDR8,100); BBCA (BUY; TP: IDR 38,000); ASII (BUY; TP: IDR7,480); UNTR (BUY; TP: IDR33,700); TLKM (BUY; TP: IDR4,000); ICBP (BUY; TP: IDR12,500); GGRM (BUY; TP: IDR48,000)**. In addition, there are several potentials for temporary strengthening in the commodity stocks with preferred stocks: **INCO (BUY; TP: IDR7,150); and LSIP (BUY; TP: IDR1,920)**. Meanwhile, several Mid-to-Small Cap stocks that have the potential to record better fundamental performance include: **ARNA (BUY; TP: IDR800); TOTL (BUY; TP: IDR510); BSDE (BUY; TP: IDR1,450)**.

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Investment Highlight

The investment theme of "Recovery Story after The Big Reset" reviews the attractiveness of investment in the Indonesian stock market after the negative impact of COVID-19. The JCI experienced a very significant decline of -37.48% to the level of 3,938 (March 24, 2020) due to investor panic over the health crisis which was feared to continue into an economic recession. Nevertheless, the reversal of direction on the stock market occurred very quickly, supported by: 1) The amount of US stimulus reached USD3 trillion; 2) Optimism of vaccine distribution; 3) The results of the US Election, namely the Blue Wave Scenario, succeeded in pushing the JCI to close at the level of 5,979 (-5.1% YTD) at the end of 2020. MNCS projects that the momentum of the increase in the JCI in the long term will continue to be supported by positive expectations of Indonesia's economic recovery is projected to grow from -2% in 2020 to 4.5% to 5.5% in 2021. This is also projected to be followed by growth in corporate earnings from -30% in 2020 to +35% in 2021. The potential for the return of foreign investors and the shift from the bond market coupled with significant growth in retail investors is the main driver for a more sustainable increase in the JCI. **However, in the short term, we estimate that there is a potential decline for the JCI** which is reasonable driven by the increase in COVID-19 cases which continues to increase above 11,000 cases per day, virus mutations and the anticipation of side effects from vaccine injection. **MNCS Institutional Research Team prioritized several cyclical and value stock sectors, especially the banking, mining, plantation and telecommunications sectors as the main picks.** However, we are also looking at the consumption sector amidst the current downturn as it offers attractive valuations and potential recovery in 2H21. JCI is projected to grow to: 1) Base Case: 6,320; 2) Bull Case: 7,221; Bear Case: 5,651.

From Fear to Greed : JCI Index Rose by 25.67% since Nov'2020 to Mid Jan'21

At a glance of the Indonesian capital market industry, the JCI had recorded a significant decline of -36.67% YTD to the level of 3,989 on March 23, 2020. This was due to the fear of the COVID-19 pandemic affecting PSBB throughout Indonesia. The limitation of economic activity is definitely very bad for Indonesia's economic growth which in two (2) consecutive quarters grew negatively by -5.32% in 2Q20/-3.49% in 3Q20. At the end of 2020, Indonesia's economic growth is also expected to grow negatively at -2% YoY. Nevertheless, the recovery of the Indonesian stock market has occurred very quickly along with optimism over the COVID-19 vaccine and stimulus from developed countries which are believed to return to developing countries, especially Indonesia. The JCI recorded a significant increase of 25.67% from the 5,115 level (Nov 2nd 2020) to the level of 6,428 (Jan 14th 2021). Fear that previously dominated investors' investment strategy has turned 180% degree into greed amidst the trade asymmetry that still limits the maximum decline of -7% in one trading day.

Euphoria of Vaccine and Economic Recovery in midst of Revival of Domestic Investor

The uprising momentum for JCI will continue in 2021, driven by optimism over the vaccine injection which has started on January 14th, 2021 and expectations of economic recovery. President Jokowi gave confidence to the market by being the first person to receive the Sinovac vaccine injection. The efficacy of the Sinovac vaccine in Indonesia reaches around 65% and has met the minimum limit of the WHO at 60%, which is expected to encourage the recovery of the health crisis in Indonesia and ultimately have a positive impact on economic growth in 2021. Indonesia's economic growth rate is projected to recover from -2% in FY20E to 4.5% - 5.5% in FY21F. This is of course estimated to be followed by corporate profit growth that rose from -30% in FY20E to + 35% in FY21F. In addition, the engine of JCI growth also came from the significant growth in the number of retail investors. Based on KSEI data, the number of securities sub-accounts at C-BEST has increased from 1.37 million in 12M19 to 2.18 million in 12M20. The average trade value on the IDX also grew significantly from normally at IDR7 - 8 trillion to IDR18 - 20 trillion.

Exhibit 01. Indonesia Macroeconomic Assumptions in 2020/2021

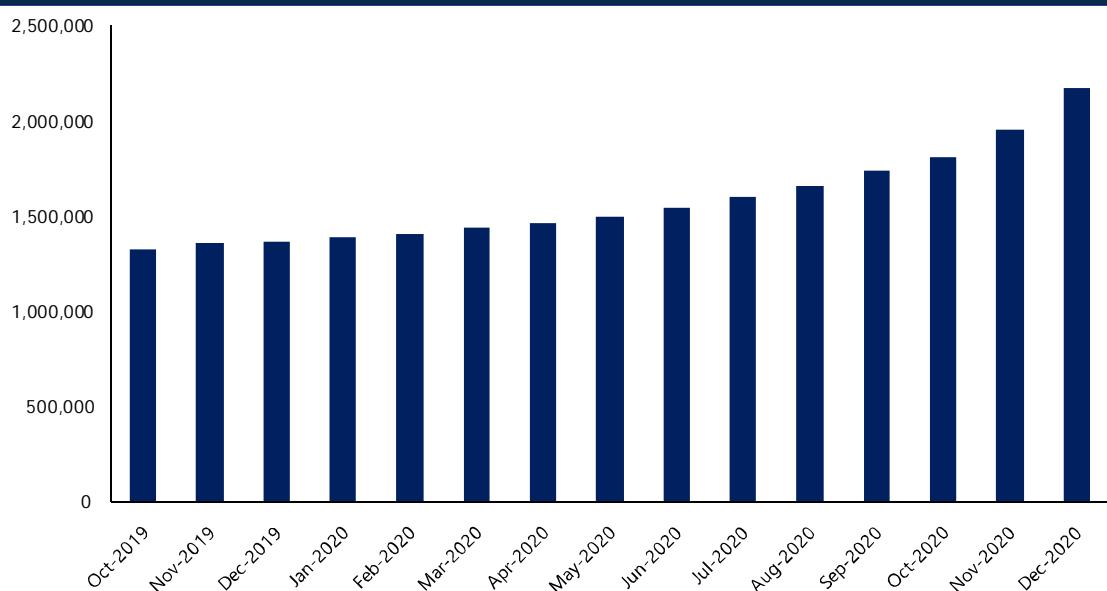
No	Key Indicators	2020	2021
1	GDP Growth (YoY)	-2.00%	4.50 - 5.5%
2	Inflation (YoY)	2.00%	2.50 - 3.00%
3	7DRRR	3.75%	3.50 - 3.75%
4	Currency IDR per USD (Average)	14,500	14,000
5	Current Account (%of GDP)	-1.30%	-2.40%
6	Govt Bond 10-Year Yield	6.10%	5.75%
7	EPS Growth	-30.00%	35.00%

Source: MoF, IMF, MNCS

Stock Market Influencers through “xxxMology” Phenomenon are in the Hype Trend

Along with the PSBB (restricted activities) which is still being implemented, the Work from Home (WFH) will still encourage the growth of the number of retail investors in Indonesia. MNCS observes that currently most of the acquaintances, friends or even informal workers who never knew or even wanted to invest in stocks have now become extraordinarily aggressive in becoming investors in the capital market. This is of course what drives the **many influencers in the capital market to transform into market movers on social media**. On the one hand, this is a **very good achievement for the penetration of the capital market** to the majority of Indonesian people. **But if it is not accompanied by good education, this phenomenon can encourage irrationality of retail investors who can eventually become victims when there is a significant decline in the shares invested.**

Exhibit 02. Retail Investor Growth in Indonesia (in million Accounts)



Source: KSEI

**Cyclical to Value Sectors
are the Main Picks but
Keep Watch for
Consumer Staples**

Prospective sectors to be invested in in 2021 are the banking, mining, plantation and telecommunications sectors.

Banking Sector: The banking sector is still the main pick in line with optimism for a solid recovery in profit growth with an average of above 20% in 2021. In addition, banks still dominate the weighting of the JCI with a ratio of close to 40%, which means that the movement of the JCI is heavily influenced by this sector.

Mining Sector: The weakening in the USD currency provides a positive catalyst for the strengthening of most world commodity prices. 2020 and 2021 are still good years for nickel, driven by the development of electric vehicles (EV). Nickel price is still estimated to increase above the level of USD20,000 per ton in FY21F. On the other hand, the prospect of coal mining will also have a positive impact as the increased use of energy for battery development but price increases will be limited to an average of USD80 - 85 per ton due to restrictions imposed by China.

Plantation Sector: CPO commodities still get a positive catalyst up to 1H21F driven by LaNina which is estimated to experience an extension from previously up to 2M21 to 5M21. The price of CPO is estimated to have the potential to increase to above MYR4,000 per ton. Lower supply side and higher demand-side growth expectations driven by the B50 - B100 policy will still be the main factors supporting the growth prospects in FY21F. For the record, CPO commodity prices are much more solid and even continue to increase during the COVID-19 period. This reflects a much more positive outlook when the economic recovery is fully realized.

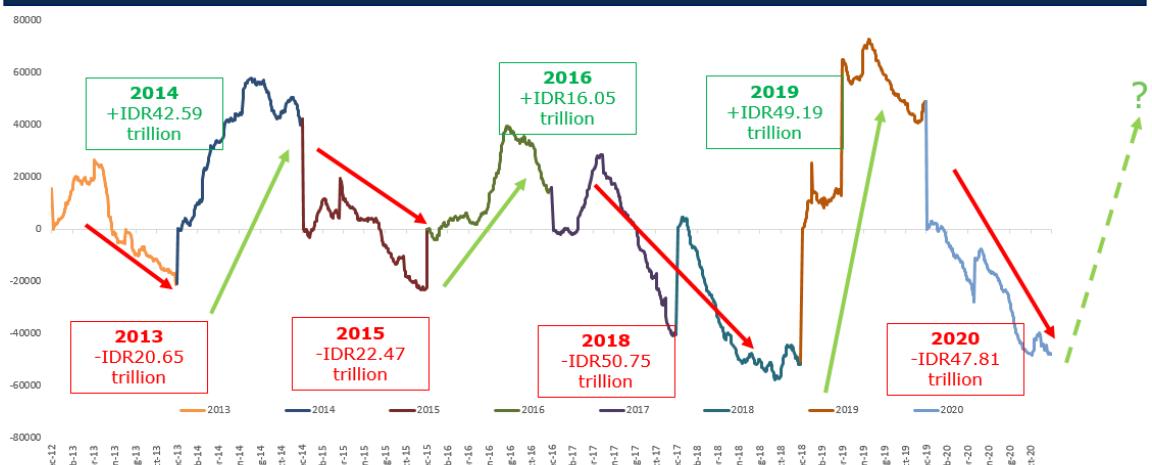
Telecommunication Sector: The telecommunications sector is one of the sectors that is still growing positively in the COVID-19 era driven by high WFH activity. In addition, the consolidation of the telecommunications sector will still be an attractive catalyst for stocks in this sector due to corporate actions and M&A. Apart from telco operators, supporting industries such as towers will also remain attractive.

Digital and ESG Sector: Investment in the digital and ESG sector has become a prospective trend in Indonesia starting from the end of 2020. However, the low exposure to issuers is still a limitation for optimal investment in this sector. One of intriguing investment opportunity is Tokopedia. Tokopedia plans for an IPO in 2021 with an estimated valuation of USD8 billion - USD10 billion on the Nasdaq.

MNCS believes that the bullish momentum of JCI is still ongoing in FY21F. Nonetheless, we reminded that there is a potential for a reasonable downturn amidst the significant rally in the JCI in the last 2 months. MNCS considers that the issue of vaccines and stimulus has been fully priced in with the current increase in the JCI. So that JCI needs other positive catalysts to grow more sustainably in the future. Inflow from foreign investors and a shift from the bond market are expected to occur in line with the premium of market valuation in developed countries and also the value of bonds in Indonesia. **Some of the main risks to consider for the potential decline in the JCI in the short term:** 1) The increase in COVID-19 cases in Indonesia, which continued to record an all time high, reached over 11,000 cases per day; 2) Mutation of the COVID-19 virus and the emergence of negative issues over the efficacy of the Sinovac vaccine; 3) The increasing political tension in the US awaits the inauguration of the US President.

We set several scenarios for JCI movement, including: **1) Base Case: JCI target until the end of FY21F of 6,320** with an estimated GDP of Indonesia at the level of 3% - 4.5% (EPS growth: +35%; implied PE: 17x); **2) Bull Case: JCI target until the end of FY21F of 7,221** with an estimated GDP of Indonesia at 5.5% (EPS growth:> 45%; implied PE: 18.5x); **3) Bear Case: JCI target by the end of FY21F is 5,651** with an estimated GDP of Indonesia below the 3% level (EPS growth: <25%; implied PE: 16x).

**Investment Strategy
2021 : Watch for
Healthy Correction in
Short Term, Still Bull for
Long Term**

Exhibit 03. Foreign Inflow Tracker 2012 – 2020


Source: Bloomberg, MNCS

Economic Recovery is underway; Move to Cyclical Sector and Valued Stock

MNCS recommended several main preferred stocks that serve as proxies for economic recovery, such as: **BBNI (BUY; TP: IDR8,100)**; **BBCA (BUY; TP: IDR. 38,000)**; **ASII (BUY; TP: IDR7,480)**; **UNTR (BUY; TP: IDR33,700)**; **TLKM (BUY; TP: IDR4,000)**; **ICBP (BUY; TP: IDR12,500)**; **GGRM (BUY; TP: IDR48,000)**. In addition, there are several potentials for temporary strengthening in the commodity stocks with preferred stocks: **INCO (BUY; TP: IDR7,150)**; and **LSIP (BUY; TP: IDR1,920)**. Meanwhile, several Mid-to-Small Cap stocks that have the potential to record better fundamental performance include: **ARNA (BUY; TP: IDR800)**; **TOTL (BUY; TP: IDR510)**; **BSDE (BUY; TP: IDR1,450)**.

Exhibit 04. JCI at Mean PE (5 years average)


Source: Bloomberg

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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

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