INVESTMENT STRATEGY REPORT

MNC Sekuritas Research Division | February 07, 2020

MNC sekuritas

Appealing Valuation

Coronavirus Outbreak Has the Potential to Cause Severe Economic and Market Disruption

The Novel Coronavirus [2019-nCoV] has spread rapidly throughout the world, since early December 31st, 2019 in Wuhan City, China. According to WHO and CDC, the virus has infected 31,486 people with 638 number of deaths as of February 7th, 2020. Most of the infection and death cases were centralized in China, where the virus by now has spread to 28 countries including Hong Kong, Singapore, Japan, Germany, US, Australia and Russia. China's transportation, tourism and manufacturing sectors are currently sluggish due to the temporary shutdown. In addition to market concerns pertaining to the US and China trade war, concerns by investors also arise from the potential slowdown in China's GDP growth for FY20E due to the spread of Coronavirus. The World Bank illustrates that every 1% decrease in China's GDP will lead to a decline in Indonesia's GDP by -0.3%. However, we believe that the handling of this case will be faster, which based on cases that occurred during the SARS outbreak in 2003, the recovery process could take around 6 months. As of February 7th, 2020, there have been 1,606 people who have been declared as recovered from Coronavirus.

JCI Performance Weakening 5.09% YTD in-line with Lower Liquidity in Equity Market

JCI movement tends to be in anomaly throughout January 2020, inversely proportional to the strengthening of DJIA and S&P indexes, which continue to mark their highest level. JCI recorded a weakening of -5.09% YTD until February 5th, 2020 to a level of 5.978, in contrary to an increase in the JCI by 4.63% YTD on February 5th, 2019. This weakening was driven by the decline in the average daily transactions at the level of IDR5.30 trillion from the level of IDR6.69 trillion throughout 2019. Back at the time during the SARS virus outbreak, the JCI still marked an increase compared to the DJIA and HSEI which recorded a decline. However, during the Coronavirus outbreak, the JCI is experiencing a significant decline. We also observed that domestic issues still impact to the index weakening. The Snowballing Effect from the systemic errors in investment management and default by several local mutual funds caused the instability in capital market and led the investors distrust. Moreover, some mutual funds were also observed to experience defaults with several potentially liquidated assets. We expect the potential flow of funds (~IDR4.75 trillion) can suppress the JCI following the sale of stock portfolios that will be carried out under 60 trading days by the order of OJK. However, we believe that the Indonesian market will become more agile and sustainable in the future.

Wind of Change: Lucrative Valuation on JCI

Currently, JCI is traded at -2STD (3 years average PE forward) with PE at 13.87x. From the valuation side, we consider JCI to be more attractive as it is traded relatively lower compared to MSCI Developed and MSCI Emerging Market, which are traded at +1STD and 0STD respectively. On the other hand, Indonesia's macroeconomic conditions are still relatively stable, supported by 1) Indonesia's GDP controlled at the level of 5.02% in FY19; 2) The appreciation of Rupiah against USD of 1.93% YoY at the level of IDR13,690/USD; 3) Indonesia's foreign exchange reserves marked an increase to the level of USD129.18 billion in December 2019; 4) Improvement in commodity prices such as CPO (+21.60% YoY) and Gold (+18.58% YoY); 5) Decreasing risk factors in Indonesia with a 10-year government bond yield rate at 6.7%. We project JCI EPS to grow around 10%-12% in FY21F (vs 5.38%-8.00% in FY20E).

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. We consider that market condition will be better in February 2020 compared to the last month. We also have already published MNCS Primbon Index 2020 (see exhibit 06). MNCS maintains our mid-year **target of JCI at 6,371 as moderate scenario** with 45% of probability and **5,601 as pessimistic scenario** with 55% of probability ratio. 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: IDR2,500), 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: IDR1,465), MDKA (BUY; TP: IDR1,400)** and **CPO Sector (Neutral)** with **LSIP (BUY; TP: IDR1,400)** amid global geopolitical risks and rising in commodity prices.

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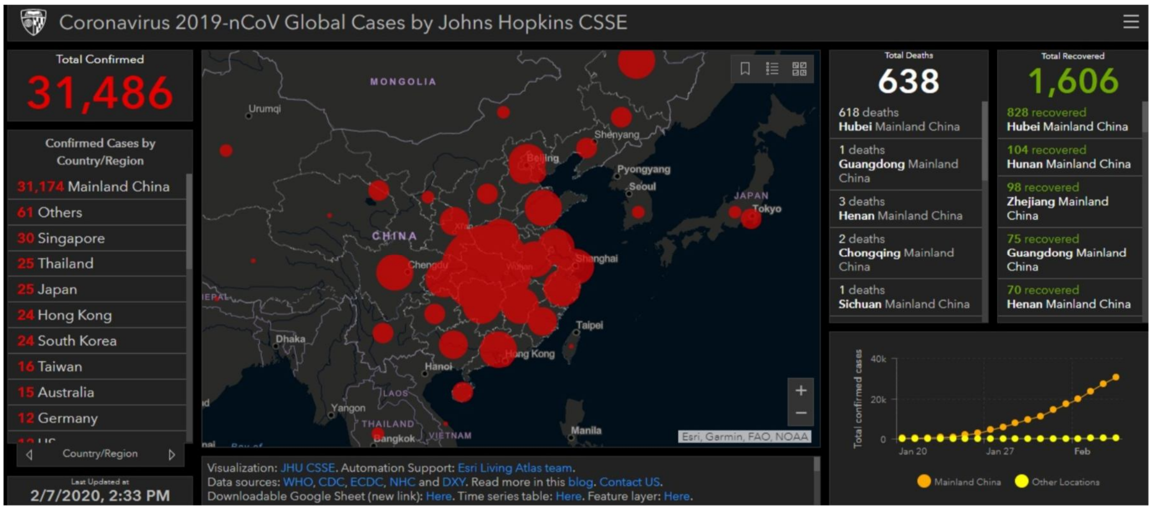
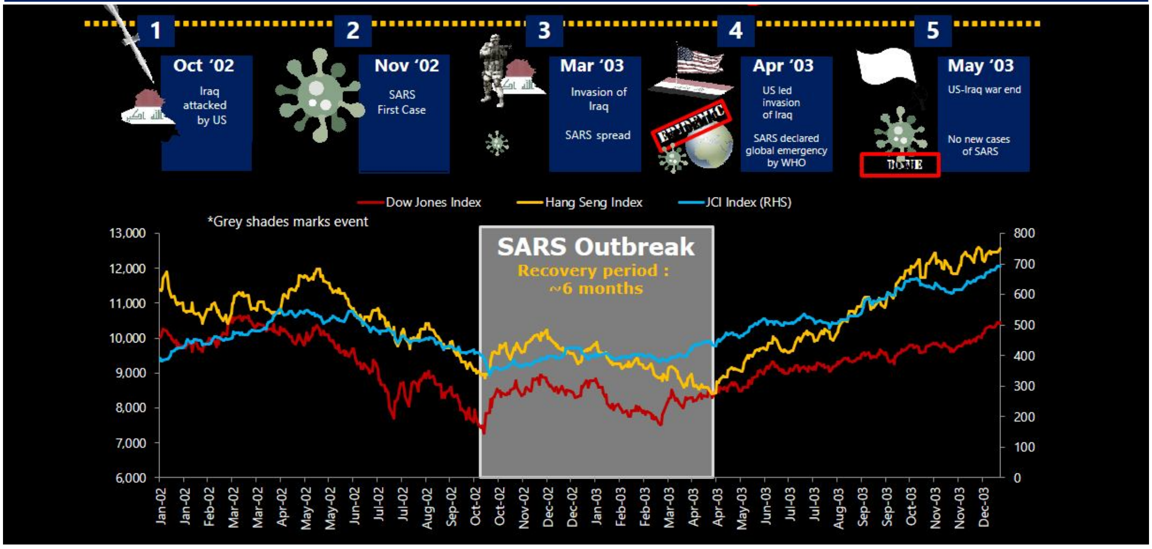
Please see important disclaimer at the back of this report

Exhibit 01. Distribution of 2019-nCoV cases as of 07 February 2020



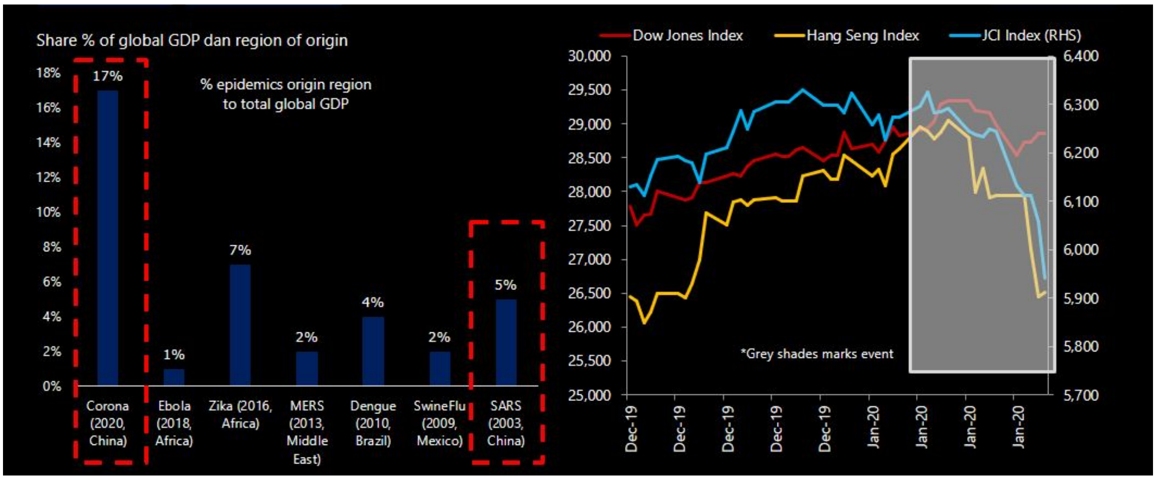
Source: WHO, CDC

Exhibit 02. SARS Outbreak: JCI still marked an increase compared to the DJIA and HSEI which recorded a decline



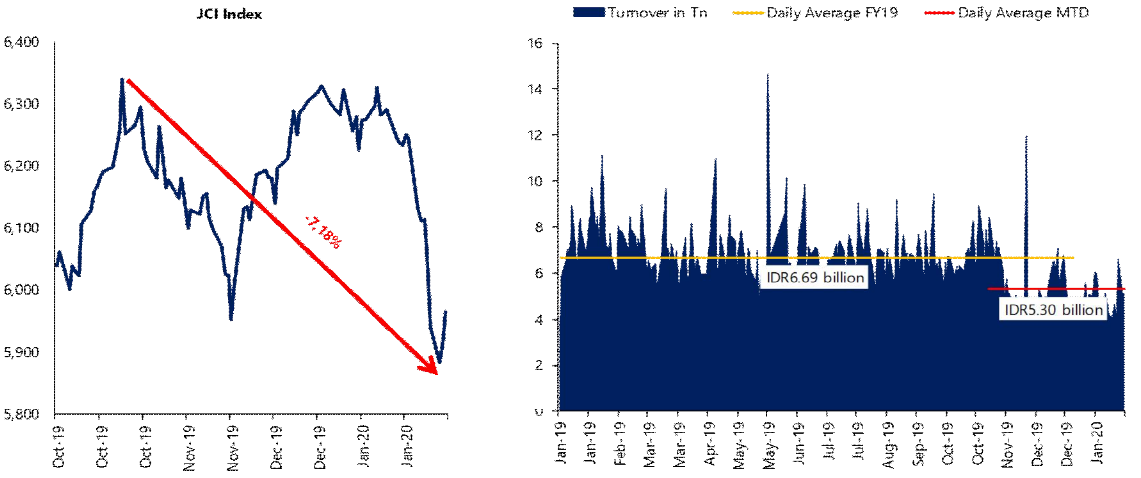
Source: Bloomberg, MNCS

Exhibit 03. During the Coronavirus Outbreak, the JCI is Experiencing a Significant Decline



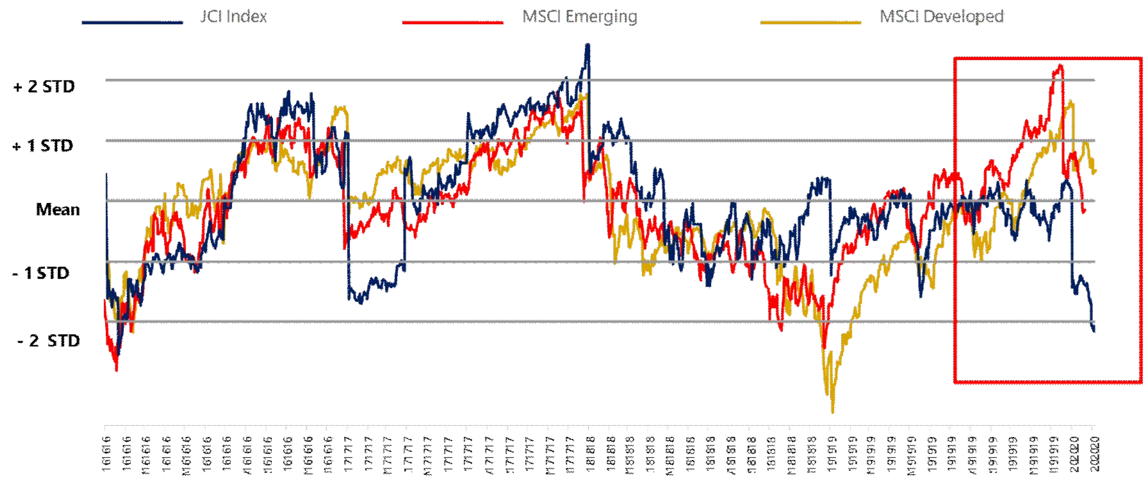
Source: MNCS

Exhibit 04. Daily Average Transaction Decline to IDR5.30 billion



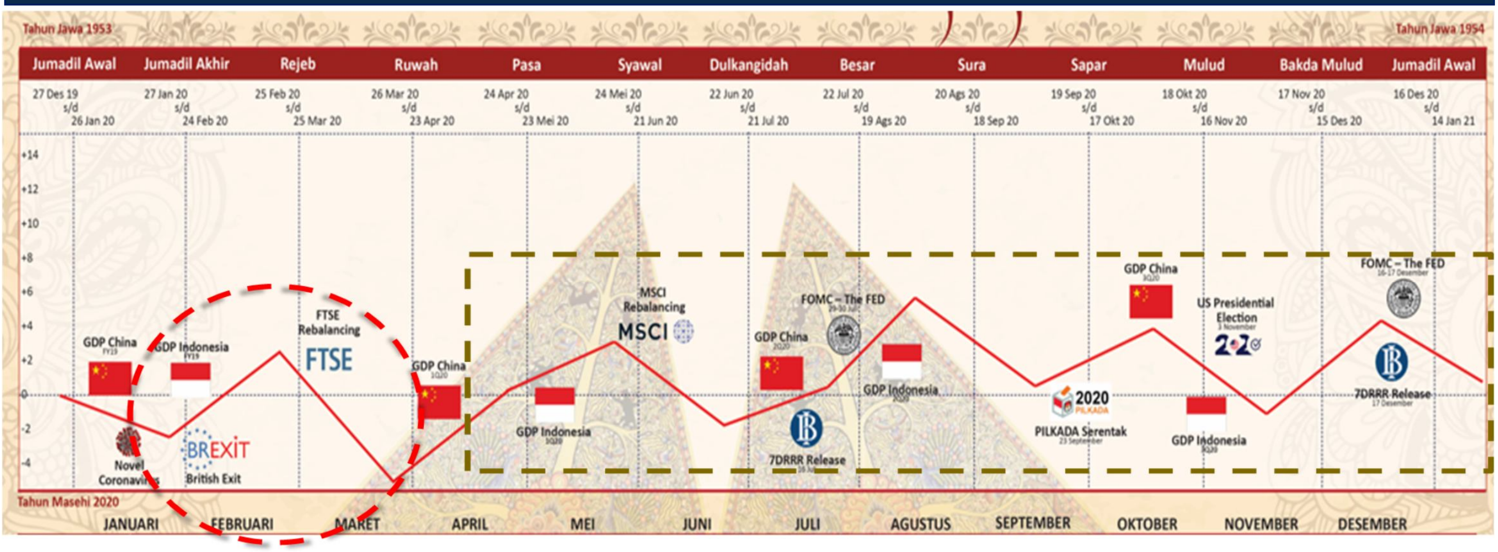
Source: Bloomberg, MNCS

Exhibit 05. JCI is traded at -2STD (3 years average PE forward)



Source: Bloomberg, MNCS

Exhibit 06. MNCS Primbon Index 2020



Source: MNCS

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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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