



How Low MAY You Go? - Part 1

Economic Downturn Could Set Stage for Rough First Half 2020

JCI posted a -27.02% YTD decline in May 08, 2020 to 4,597 level. The plunge in the JCI was driven by several factors such as: 1) Investor concerns about the spread of Covid-19 that inevitably affected the global market, which has infected more than 3,84 million people worldwide and killed almost 269,000; 2) Oil-producers, Russia and Saudi Arabia triggered the oil price war in the aftermath of disagreement in the production volume at the OPEC summit which led to a fall the oil prices more than 60% since the beginning of 2020; 3) Rising geopolitical tensions, such as concerns about a "Trade War" between the US and China. Foreign investors persisted with a net sale, dumping IDR20.95 trillion in May 08, 2020 compared to a net buy IDR63.24 trillion in the same period last year. Moreover, Indonesia's weakening domestic data on GDP, inflation and PMI which further suppressed the index movement. Indonesia's GDP in 1Q20 only grew 2.97% YoY (-2.41% QoQ) followed by "unusually" low inflation at the start of Ramadhan in Apr-2020 at 2.67% YoY (0.08% MoM). Furthermore, the activity of Indonesia's manufacturing industry was recorded at its weakest level in 9 years history as reflected in the PMI Index at the level of 27.5 in Apr-2020 (vs 43.5 in Mar-2020) due to the Large Scale Social Restrictions (PSBB) implementation.

Sell in May and Go Away: "Black Swan is a New Normal"

Sell in May and Go Away refers to the popular belief that equity markets tend to go down in May. Historically, during May, the average of JCI return for 20 years was relatively thin at 0.35% level. Several domestic factors that suppressed the JCI's performance include the release of first quarter economic data and the company's performance that missed with expectations. We also note that August and October became the months with the lowest return in the past 20 years at -2.16%/-0.34% respectively. Moreover, we believe the Black Swan phenomenon to be normal in this May 2020 in which events have occurred unexpectedly and caused a stir in the financial markets as we have stated on the MNCS Primbon Index 2020. Some of them are due to multiple sentiments: 1) Lower estimated GDP growth in 2Q20E; 2) Potential recession due to temporary shutdowns on activity. We believe this seasonal patterns can be utilized by investors to accumulate selected stocks with good fundamentals that are expected to sustain their dividend yields.

Game Changer: Vaccine and Opening Lockdown

We believe that the successful of vaccine trials and the lockdown opening period are important issues for determining market direction. Based on several studies, a gradual lockdown will be held in June and July 2020 (see exhibit 03). Currently, countries around the world are using different vaccine technologies to create and try the Covid-19 vaccine such as: 1) China; 2) US; 3) Germany; 4) Italy; 5) UK. While the Indonesian Ministry of Health said it would conduct clinical trials of vaccine candidates for Covid-19 patients using remdesivir and three other types of medicine. However, until now, WHO and the Ministry of Health have not clearly explained the success of the vaccine so the market is still waiting for certainty. Experts think there will be a second wave of outbreak, most likely again in the latter half of this year. We believe that the Covid-19 issue will gradually decrease in June-July 2020 but the negative impact looming the economic downturn led to a recession and lowered the corporate credit rating both private (e.g. MDLN, PANR, TELE) and SOEs (e.g. Perum Perumnas, PT Pos Indonesia, PJAA, WSKT) which will still frightened until 2021.

MNCS Trading Strategy: BUY on Weakness!

We see that high volatility in the stock market will still occur, where the earnings could potentially decline at -10% to -30% level in FY20E with the worst decline occurring in 2Q20/3Q20. Of course this is not yet fully priced in to the market. However, after June 2020, investors will focus on earning story growth where the IMF expects a recovery in 2021 as the Indonesia's GDP may expand to 8.2% from 0.5%. From the current position, JCI tends to be limited with potential increase to 4,800 level where the main strengthening factor is not coming from a fundamental side, but from the buyback programs and an active mutual fund manager, which is also very difficult to validate in the midst of net foreign flow. Therefore, MNCS recommends **BUY on Weakness when the JCI approaches the 4,200 level** with a focus on the **Consumer, Telecommunication and Selected Banks** sectors particularly on high-yield dividend stock and some blue chips such as: ICBP (BUY; TP: IDR11,500), GGRM (BUY; TP: IDR55,450), TLKM (BUY; TP: IDR3,600), ASII (BUY; TP: IDR4,900), BBRI (BUY; TP: IDR3,200) and BBNi (BUY; TP: IDR4,300).

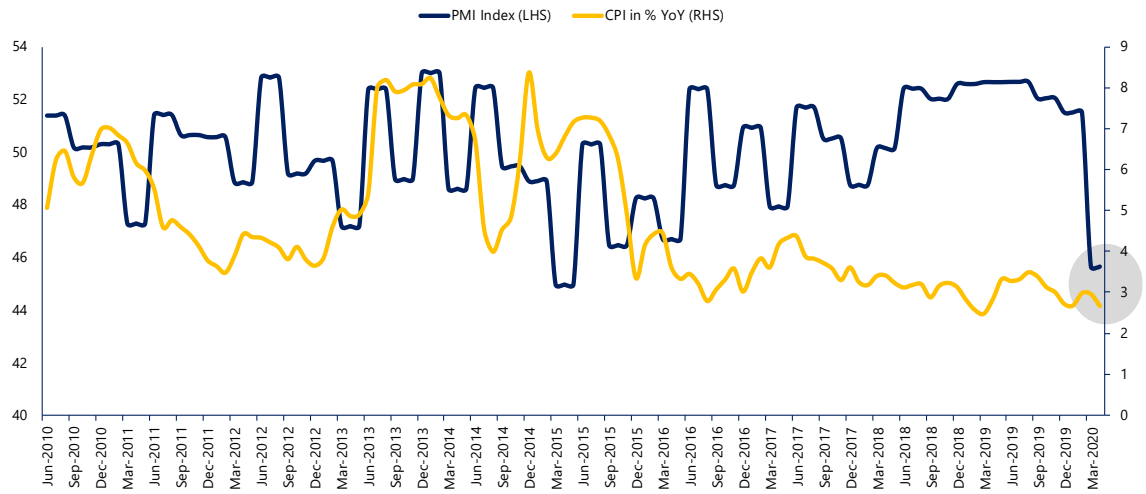
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Exhibit 01. Indonesia's PMI Index recorded its weakest level in 9 years history



Source: Bloomberg, MNCS

Exhibit 02. JCI Index Seasonality Chart

20 Yr Avg	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	-5.71	-8.20	-16.76	3.91	-1.83	1.39	2.24	-2.16	.43	-3.4	1.01	4.06
2019	5.46	-1.37	.39	-.21	-3.81	2.41	.50	-.97	-2.52	.96	-3.48	4.79
2018	3.93	-.13	-6.19	-3.14	-.18	-3.08	2.37	1.38	-.70	-2.42	3.85	2.28
2017	-.05	1.75	3.37	2.10	.93	1.60	.19	.40	.63	1.78	-.89	6.78
2016	.48	3.38	1.56	-.14	-.86	4.58	3.97	3.26	-.40	1.08	-5.05	2.87
2015	1.19	3.04	1.25	-7.83	2.55	-5.86	-2.20	-6.10	-6.34	5.48	-.20	3.30
2014	3.38	4.56	3.20	1.51	1.11	-.31	4.31	.94	.01	-.93	1.19	1.50
2013	3.17	7.68	3.03	1.88	.69	-4.93	-4.33	-9.01	2.89	4.51	-5.64	.42
2012	3.13	1.10	3.42	1.44	-8.32	3.20	4.72	-1.98	4.98	2.06	-1.70	.95
2011	-7.95	1.79	6.00	3.83	.45	1.34	6.23	-7.00	-7.62	6.81	-2.00	2.88
2010	3.02	-2.37	8.96	6.98	-5.87	4.17	5.34	.41	13.61	3.83	-2.86	4.88
2009	-1.68	-3.54	11.56	20.13	11.26	5.74	14.63	.79	5.38	-4.05	2.03	4.91
2008	-4.32	3.60	-10.09	-5.83	6.07	-3.90	-1.90	-6.01	-15.39	-31.42	-1.21	9.17
2007	-2.67	-.93	5.17	9.19	4.26	2.64	9.79	6.57	7.51	12.05	1.70	2.14
2006	5.99	-.13	7.50	10.69	-9.18	-1.48	3.16	5.89	7.22	3.13	8.61	5.04
2005	4.52	2.72	.59	-4.68	5.69	3.14	5.34	-11.18	2.78	-1.21	2.85	6.02
2004	8.82	1.08	-3.34	6.49	-6.50	-.02	3.36	-.30	8.67	4.92	13.63	2.30
2003	-8.59	2.77	-.30	13.28	9.74	2.17	.49	4.27	12.83	4.67	-1.35	12.12
2002	15.20	.36	6.29	10.85	-.61	-4.86	-8.19	-4.31	-5.49	-11.99	5.79	8.84
2001	2.23	.63	-11.03	-5.99	13.30	7.82	1.48	-1.92	-9.89	-2.23	-.89	3.08
2000	-5.99	-9.40	1.17	-9.69	-13.75	13.38	-4.45	-5.24	-9.66	-3.79	5.89	-3.00

Source: Bloomberg

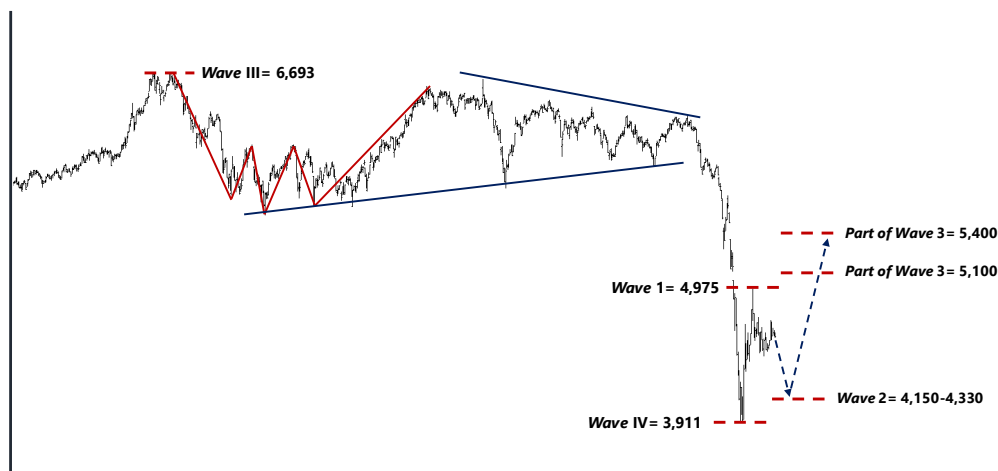
Exhibit 03. Estimated timing of Country Lockdown and Recovery

Countries	Turning Date	End 97%	End 99%	End 100%
World	11-Apr-20	30-May-20	17-Jun-20	9-Dec-20
China	8-Feb-20	27-Feb-20	4-Mar-20	9-Apr-20
US	10-Apr-20	12-May-20	24-May-20	27-Aug-20
Italy	29-Mar-20	8-May-20	21-May-20	25-Aug-20
India	20-Apr-20	22-May-20	1-Jun-20	26-Jul-20
Singapore	5-May-20	4-Jun-20	14-Jun-20	8-Aug-20
Indonesia	20-Apr-20	7-Jun-20	24-Jun-20	7-Sep-20

	1. Currently in full lockdown?	2. Potential lockdown start date	3. Peak new cases date	4. Short potential lockdown end date	5. Long potential lockdown end date
USA	✗	W1 April (latest states) March 24 th	W1 May	W2 June (earliest states) W3 June	W3 July (earliest states) W4 July
UK	✓	W4 March	W3 May	W1 July	W2 August
Brazil	✗	March 17 th	W3 May	W2 June	W4 July
France	✓	W4 March	W1 May	W4 June	W4 July
Russia	✗	March 24 th	W3 June	W4 June	W2 September
India	✓	March 20 th	W4 May	W4 June	W4 August
Argentina	✓	January 23 rd	February 13 th	March 25 th	April 8 th
China (Hubei)	✓	W4 March	W1 May	W2 June	W1 July
Germany	✗	W1 April	W2 May	W4 June	W4 July
Australia	✗	W4 March	W1 May	W4 June	W3 July
Canada	✗	March 14 th	W4 April	W1 June	W3 July
Spain	✗	W1 April	W3 April	W1 July	W3 July
Mexico	✗	March 24 th	W4 April	W3 June	W1 July
Poland	✓	March 17 th	W3 May	W2 June	W4 July
Belgium	✓	March 12 th	W4 March	W1 June	W3 June
Norway	✓	March 26 th	W1 June	W4 June	W4 August
South Africa	✓	March 10 th	W3 April	W2 June	W1 July
Italy	✗	W4 March	W4 March	W1 June	W3 June
Sweden	✓	March 24 th	W1 May	W4 June	W4 July
Colombia	✓	March 24 th	W1 May	W4 June	W4 July

Source: John Hopkins University, Euromonitor, BCG Analysis, DDI

Exhibit 04. JCI Technical Scenario as of May 11, 2020



Source: MNCS

Exhibit 05. Overview of the World Economic Outlook Projection (% change, unless noted otherwise)

	2019	Projections		Difference from January 2020 WEO Update ¹		Difference from October 2019 WEO ¹	
		2020	2021	2020	2021	2020	2021
World Output	2.9	-3.0	5.8	-6.3	2.4	-6.4	2.2
Advanced Economies	1.7	-6.1	4.5	-7.7	2.9	-7.8	2.9
United States	2.3	-5.9	4.7	-7.9	3.0	-8.0	3.0
Euro Area	1.2	-7.5	4.7	-8.8	3.3	-8.9	3.3
Germany	0.6	-7.0	5.2	-8.1	3.8	-8.2	3.8
France	1.3	-7.2	4.5	-8.5	3.2	-8.5	3.2
Italy	0.3	-9.1	4.8	-9.6	4.1	-9.6	4.0
Spain	2.0	-8.0	4.3	-9.6	2.7	-9.8	2.6
Japan	0.7	-5.2	3.0	-5.9	2.5	-5.7	2.5
United Kingdom	1.4	-6.5	4.0	-7.9	2.5	-7.9	2.5
Canada	1.6	-6.2	4.2	-8.0	2.4	-8.0	2.4
Other Advanced Economies ²	1.7	-4.6	4.5	-6.5	2.1	-6.6	2.2
Emerging Market and Developing Economies	3.7	-1.0	6.6	-5.4	2.0	-5.6	1.8
Emerging and Developing Asia	5.5	1.0	8.5	-4.8	2.6	-5.0	2.3
China	6.1	1.2	9.2	-4.8	3.4	-4.6	3.3
India ³	4.2	1.9	7.4	-3.9	0.9	-5.1	0.0
ASEAN-5 ⁴	4.8	-0.6	7.8	-5.4	2.7	-5.5	2.6

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2019	Projections		2019	Projections		2019	Projections		2019	Projections	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Asia	4.6	0.0	7.6	2.7	2.5	2.5	1.8	1.0	1.2	...	...	...
Advanced Asia	1.2	-4.5	3.8	0.7	0.5	0.8	4.3	2.9	3.0	3.1	4.1	3.7
Japan	0.7	-5.2	3.0	0.5	0.2	0.4	3.6	1.7	1.9	2.4	3.0	2.3
Korea	2.0	-1.2	3.4	0.4	0.3	0.4	3.7	4.9	4.8	3.8	4.5	4.5
Australia	1.8	-6.7	6.1	1.6	1.4	1.8	0.5	-0.6	-1.8	5.2	7.6	8.9
Taiwan Province of China	2.7	-4.0	3.5	0.5	0.5	1.5	10.5	8.2	8.3	3.8	4.4	4.0
Singapore	0.7	-3.5	3.0	0.6	-0.2	0.5	17.0	14.8	15.7	2.3	2.5	2.4
Hong Kong SAR	-1.2	-4.8	3.9	2.9	2.0	2.5	6.2	6.0	5.0	3.0	4.5	3.9
New Zealand	2.2	-7.2	5.9	1.6	1.2	1.4	-3.0	-4.5	-3.2	4.1	9.2	6.8
Macao SAR	-4.7	-29.6	32.0	2.8	2.0	2.3	34.8	13.1	30.0	1.7	2.0	1.8
Emerging and Developing Asia	5.5	1.0	8.5	3.2	3.0	2.9	0.6	0.1	0.5	...	...	...
China	6.1	1.2	9.2	2.9	3.0	2.6	1.0	0.5	1.0	3.6	4.3	3.8
India ⁴	4.2	1.9	7.4	4.5	3.3	3.6	-1.1	-0.6	-1.4	...	...	...
ASEAN-5	4.8	-0.6	7.8	2.1	1.8	2.7	1.2	-0.5	0.1	...	...	...
Indonesia	5.0	0.5	8.2	2.8	2.9	2.9	-2.7	-3.2	-2.7	5.3	7.5	6.0
Thailand	2.4	-6.7	6.1	0.7	-1.1	0.6	6.9	5.2	5.6	1.1	1.1	1.1
Malaysia	4.3	-1.7	9.0	0.7	0.1	2.8	3.3	-0.1	1.7	3.3	4.9	3.4
Philippines	5.9	0.6	7.6	2.5	1.7	2.9	-0.1	-2.3	-2.2	5.1	6.2	5.3

Source: IMF, April 2020

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