INVESTMENT STRATEGY REPORT

MNC Sekuritas Research Division | October 16, 2020

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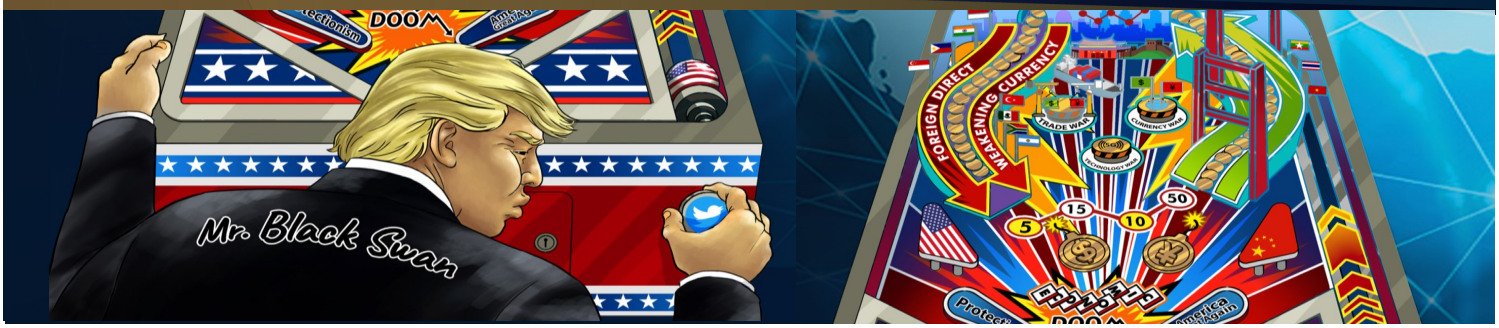

Bumping into Black Swans on the way to US Election

The road ahead is not so easy

Covid-19 outbreak in the US has not bottomed yet, followed with the total number of cases hit 7.89 mn as of Oct 16, 2020. Surveys give Americans poor ratings in handling Covid-19 crisis. Numbers of stimulus released will certainly be ineffective as this has affected the economy with a 31.7% contraction on the 2Q20 GDP leading the country into a recession, followed by a spike on the unemployment rate by 14.7% in Apr-2020, setting an all-time high ever recorded. On the other hand, the Covid-19 cases kept on hiking with an average of around 48,000 additional cases per day. This raises many questions on how capable the Trump regime handled the issue.

Trump is our guiding star

The 2020 presidential election is just within a few weeks. Markets are worried about a potential change from a Trump to a Biden administration, as the investors hate uncertainty. The certainty of future events is all based on Trump. As Trump has been discharged from the hospital and recovering there has not been any new negative test result release from the White House. We have prepared several scenarios on what's to come: 1) Scenario 1: If Trump may not be eligible to continue the Presidential Election, causing a shift on US election date which will create a new history which Nancy Pelosi could act as President in a worst case; 2) Scenario 2: If Trump didn't leave the White House, there's a second-term curse that shows a decline on the economic on the incumbent victory as geopolitical tensions still remain; 3) Scenario 3: If Bidden sat on the Oval Office, he has pledged to repeal some of the tax cuts and impose new fees on large financial institutions. We see that Trump has been largely favorable to the markets because of tax cuts, a large infrastructure plan and his administration. Nevertheless, there are several sectors that could do well under Joe Biden such as green energy and he would relieve the tensions with China which create market stability.

Effect to the Indonesian market

We believe US elections have not generally impacted Indonesian equities directly, but occasionally there have been large potential risk such as the US election in 2016 when a sharp rise in US bond yields had later dragged Indonesian equities lower. We expect that the policies of each candidate can have an effect on the Indonesian economy. If Trump is elected, the most likely trade war between the US and China will continue and worries the Indonesian market, especially if protectionism policies are implemented. However, if Biden is elected, the geopolitical situation should be more conducive due to a fair trade policy that traditionally has been carried out by the Democratic Party.

Current uproar: Omnibus Law Approval

On 5 October 2020, the Indonesian House of Representatives and the Indonesian government agreed to pass the Omnibus Bill on Job Creation, commonly known as the Omnibus Law. The law is a breakthrough effort by the government to comprehensively amend 76 sectoral laws and amend or revoke hundreds of regulations to improve bureaucratic efficiency, create job opportunities and improve Indonesia's investment ecosystem, which we believe its bring more positive tone for big and small businesses in Indonesia. The Omnibus bill on job creation had 11 main clusters, includes manpower law, easing restrictions on foreign investment, business licensing, land acquisition, tax provisions and environmental laws. We note that investors are likely to welcome this sign and attract more FDI inflows. Nevertheless, the effects will take time and depend on how the law are implemented.

Is Now a Good Times to Invest?

We believe that the successful of vaccine trials and the lockdown opening period are important issues for determining market direction. The Indonesian government said it has secured the procurement of the Covid-19 vaccine for 135 mn citizens (~270 mn doses) until FY21E. In addition, 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 and 3Q20. Investors should also pay attention to the high volatility that will occur ahead of the US election in early Nov-2020. We estimate, as long as the JCI does not break the support at 4,800, it has the potential to test its resistance at 5,381 level. Therefore, **MNCS recommends BUY on Weakness** when the JCI approaches the 4,800-4,920 level with a **focus on Banks, Property, Construction and Telco-Tower** sector particularly that benefited from current Omnibus Law such as: **BBCA (BUY; TP: IDR31,600), BBNI (BUY, TP:IDR5,700), BSDE (BUY; TP: IDR1,110), SMRA (HOLD; TP: IDR700), WSKT (BUY; TP: IDR790), WIKA (HOLD; TP: IDR1,290), TLKM (BUY; TP: IDR3,600), TOWR (BUY; TP: IDR1,150).** Meanwhile, there is a potential of short-term strengthening in the **Metal Mining Sector**, as government plans to build a USD12 bn nickel-based battery manufacturer.

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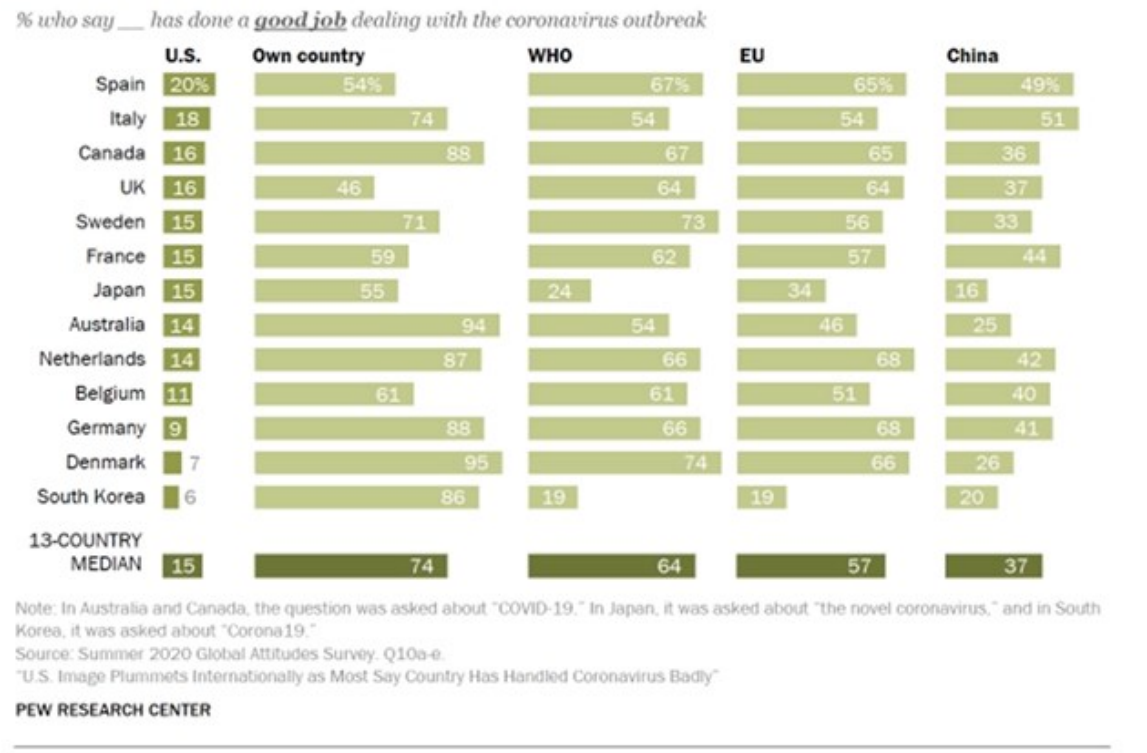
It has been a rocky road

Pandemic outbreak in the US has not bottomed yet, followed with the total number of cases hit 7.89 mn as of Oct 16, 2020. Several factors clearly determines the failure of Trump's way of handling the outbreak such as: 1) Trump didn't initiate a full lockdown, fearing an economic downturn; 2) Trump only banned any travels to and from China and Europe; 3) They majorly focused on developing an accurate Covid-19 test ignoring the virus that is still at large; 4) The White House Coronavirus Task Force keeps on revising their mortality estimation as death toll rises; 5) Some states relaxed their distancing policy with very little direction from the federal government; 6) Trump was also very dismissive of masks and stated that the mortality rate published by health authorities were unreliable or excessive. This demeanor has resulted in himself along with a part of the White House staffs to contract the Covid-19. Numbers of stimulus released will certainly be ineffective, and in the end, Trump put the blame on China. Certainly this affected the economy with a 31.7% contraction on the 2Q20 GDP leading the country into a recession, followed by a spike on the unemployment rate by 14.7% in Apr-2020, setting an all-time high ever recorded. Fed Fund rate also returns to 0% within 5 years along with a low inflation, decreasing retail sales growth and a drop in PMI markit manufacturing.

On the other hand, the Covid-19 cases kept on hiking with an average of around 48,000 additional cases per day. This raises many questions on how capable the Trump regime handled the issue. Needless to say US images start to take a dive. Based on PEW Research data 13-country survey, the US got the lowest rating of below 20% on Covid-19 response with confidence on Trump wavered below 25%. Even 52% Americans think that their country has handled the pandemic badly. On the other side, Denmark is seen as one of the most successful countries in containing the virus. The Danish rate their country as successful (95%) in handling the pandemic, while 73% feels that Covid-19 has not disrupt their everyday life.

Exhibit 01. All Publics surveyed rank the U.S. Covid-19 response lowest



Source: PEW Research Center

Trump is our guiding star

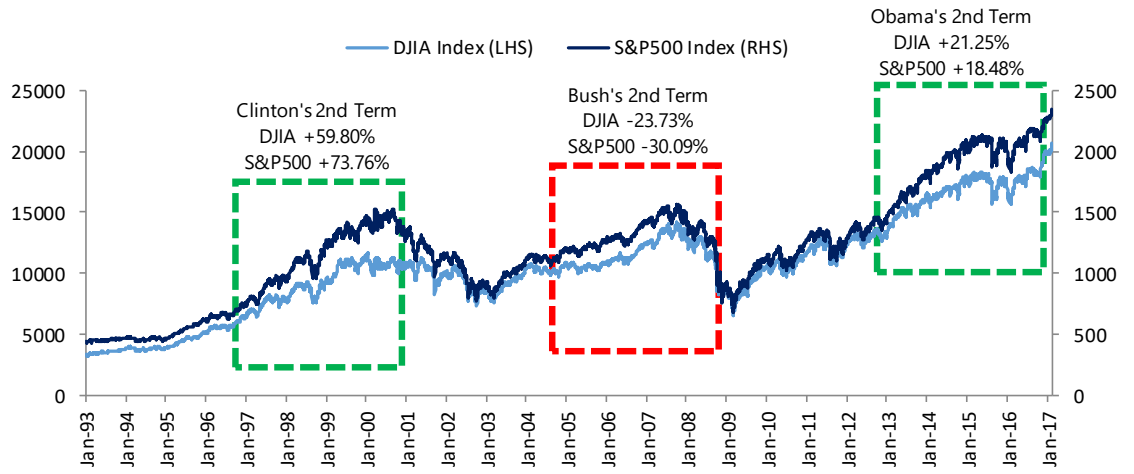
The 2020 presidential election is just within a few weeks. Markets are worried about a potential change from a Trump to a Biden administration, as the investors hate uncertainty. History shows politics, and changes in the political parties in power, have rarely been a good way to measure the market's potential. The certainty of future events is all based on Trump. As Trump has been discharged from the hospital and recovering there has not been any new negative test result release from the White House. Furthermore, the second presidential debate between two candidates has also been called off while the supposedly third or final debate scheduled on October 22, 2020. With the vague outcome, we have prepared several scenarios on what's to come:

Scenario 1: Trump may or may not be eligible to continue the Presidential Election, causing a shift on US election date which will create a new history. For hundreds of years, through natural disasters, wars and even a pandemic, the election date has remained the same. So with the election running and no candidate from the Republicans, the party might choose a new candidate. Otherwise if there were still no President chosen until January 20th, 2021 then Nancy Pelosi, the speaker of the House of Representative will act as President.

Scenario 2: If Trump didn't leave the White House, there's a chance of a second-term curse which resulted in a potential decline on the economic on the incumbent victory. However, based on the latest three consecutive Presidents serving two full terms, data stated that the economy only slump on Bush's Presidency due to the financial crisis (Exhibit 03). Meanwhile, during Trump's time, Dow Jones and S&P 500 Index has soared by 13.80%/12.90% YoY 4-years average. This is in response of Trump's looser regulation and cut on corporate tax.

Scenario 3: If Bidden sat on the Oval Office, he might reverse what Trump has done. Whereas, Biden has pledged to repeal some of the tax cuts and impose new fees on large financial institutions. Biden will also focus on education and healthcare continuing his legacies during his time with former President Obama. As it might seem unfavorable to the economy compared to Trump, many banks backed Biden over Trump in the fundraising. We see that Trump has been largely favorable to the markets because of tax cuts, a large infrastructure plan and his administration. But many aren't looking at a potential Joe Biden win as a doomsday scenario. There are several sectors that could do well under Joe Biden such as green energy and investors think a Biden administration would likely relieve it on tensions with China and be more dovish on immigration, create market stability. And based on the latest poll, it seems that Biden is currently leading (Exhibit 05).

Exhibit 02. US Market Return on 2nd Term Presidential

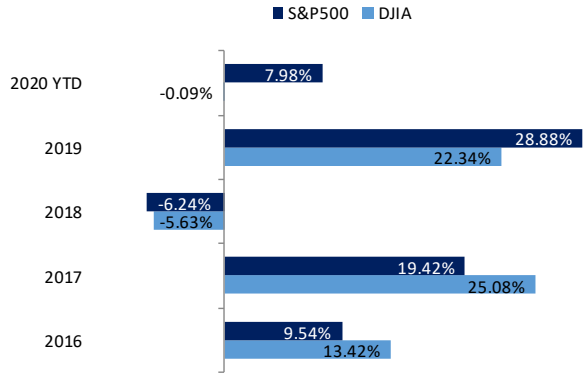


Sources: Bloomberg, MNCS

Exhibit 03. Covid-19 crushes US Economy in 2Q20

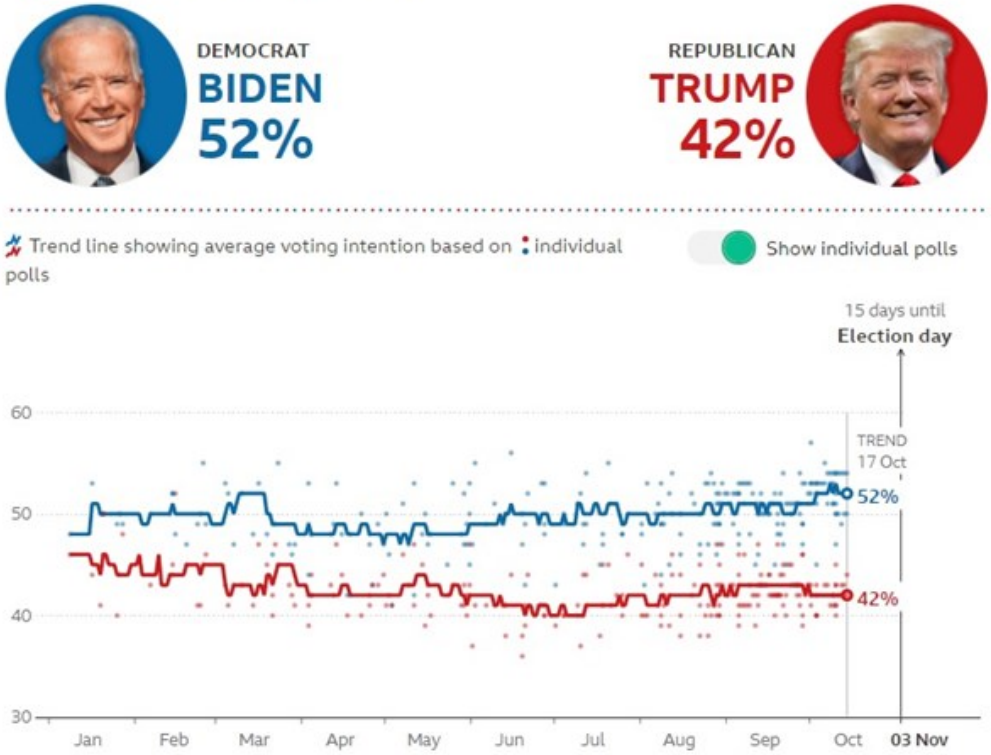
Sources: Bloomberg, MNCS

Exhibit 04. Index Return YoY on Trump Presidency



Sources: Bloomberg, MNCS

Exhibit 05. How Biden and Trump are doing in the National Polls



Source: BBC

Effect to the Indonesian market

We believe US elections have not generally impacted Indonesian equities directly, but occasionally there have been large potential risk such as the US election in 2016 when a sharp rise in US bond yields had later dragged Indonesian equities lower. Nonetheless, we focus more on the policies that will be taken by the elected president which will directly affect the Indonesian economy as Indonesia's Non-Oil and Gas Export Value to the US reaches USD13.50 bn (contributing 12.14% of total non-oil and gas exports).

We expect that the policies of each candidate can have an effect on the Indonesian economy. If Trump is elected, the most likely trade war between the US and China will continue and worries the Indonesian market, especially if protectionism policies are implemented. However, if Biden is elected, the geopolitical situation should be more conducive because the Democratic party has traditionally carried out a fair trade policy.

The candidates' policies, aim of improving the US economy are expected to boost exports and investment from trading partner countries such as Indonesia. In addition, a larger fiscal stimulus from a democratic party is likely to encourage capital inflows to Indonesia, both into the stock and bond markets as well as foreign direct investment. On the other hand, we see that the increase in tax proposed by the Democrats at the level of 21%-28% will make many US companies put them at a competitive disadvantage and choose to move their business overseas, including Indonesia. The US is one of the largest investors in the country for foreign direct investment (FDI). In 1H20, the value of FDI from the US was recorded at USD201.1 mn (9th rank).

Exhibit 06. Indonesia's Non-Oil and Gas Exports by Country of Destination per Sep-2020

Country of Destination	Value (USD mn)				Contribution to total Non Oil & Gas Exports (%)
	Aug-20	20-Sep	Jan-Sep 2019	Jan-Sep 2021	
ASEAN	**2,589.8**	**2,775.1**	**27,091.4**	**23,426.0**	**21.06**
1. Singapore	712.8	691.7	7,277.8	6,731.0	6.05
2. Malaysia	510.6	557.0	5,712.6	4,678.7	4.21
3. Thailand	330.9	391.6	4,164.3	3,288.8	2.96
EUROZONE	**1,031.1**	**990.0**	**10,821.0**	**9,527.0**	**8.56**
4. Germany	196.5	181.2	1,795.0	1,757.0	1.58
5. Netherland	234.5	217.8	2,267.6	226.6	2.00
6. Italy	136.6	130.4	1,256.2	1,271.5	1.14
BIG COUNTRIES	**6,717.2**	**7,316.5**	**59,471.3**	**59,045.5**	**53.08**
7. China	2,464.7	2,628.0	18,411.7	20,439.5	18.37
8. Japan	981.6	1,061.2	10,289.4	9,381.9	8.43
9. United States	1,620.5	1,687.3	13,123.1	13,508.3	12.14
10. India	743.7	864.3	8,494.0	7,141.8	6.42
11. Australia	193.5	245.0	1,575.7	1,786.5	1.61
12. South Korea	394.8	460.2	4,668.9	4,070.5	3.66

Source: Indonesia Central Bureau of Statistics (BPS)

Exhibit 07. Foreign Investment Realization in Indonesia Based on Country of Origin as of Jun-2020

No	Country of Origin	Value of Investment (USD mn)	Number of Projects
1	Singapore	4,673.4	6,508
2	China	2,426.5	1,311
3	Hongkong	1,797.1	1,204
4	Japan	1,213.0	4,961
5	Malaysia	795.6	1,562
6	South Korea	683.0	2,497
7	Netherland	503.0	1,032
8	British Virgin Island	217.5	811
9	United States of America	201.1	622
10	Australia	148.1	663
11	Cayman Island	137.9	118
12	Taiwan	111.6	421
13	Germany	88.2	462
14	United Kingdom	83.0	616
15	Switzerland	78.6	245

Source: Indonesian Investment Coordinating Board (BKPM)

Current uproar: Omnibus Law Approval

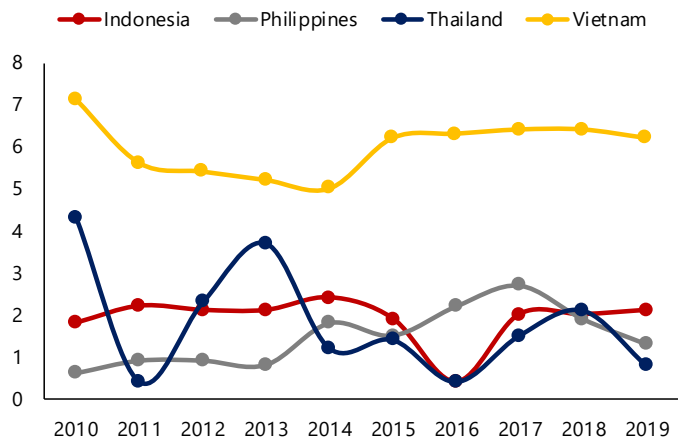
On 5 October 2020, the Indonesian House of Representatives and the Indonesian government agreed to pass the Omnibus Bill on Job Creation, commonly known as the Omnibus Law. The law is a breakthrough effort by the government to comprehensively amend 76 sectoral laws and amend or revoke hundreds of regulations to improve bureaucratic efficiency, create job opportunities and improve Indonesia's investment ecosystem, which we believe its bring more positive tone for big and small businesses in Indonesia. The Omnibus bill on job creation had 11 main clusters, includes manpower law, easing restrictions on foreign investment, business licensing, land acquisition, tax provisions and environmental laws. We note that investors are likely to welcome this sign and attract more FDI inflows. Nevertheless, the effects will takes time and depend on how the law are implemented. Focus on Banks, Property, Construction and Towercos businesses.

Exhibit 08. Omnibus Law Impacts on Sectors

No	Sector	Impacts	MNCS Note
1	Banking	Positive	Simplification of licensing and reduction of severance pay are most welcome for the MSME and businesses sector that benefits financial sector as well. It will encourage both loan and deposit growth in the medium to long term. Sovereign Wealth Fund was expected to invite more FDI without disrupting the banking system.
2	High-End Real Estate	Positive	High-end real estate benefited from relaxation of taxes and foreign ownership. So far PWON, SMRA, BSDE, LPKR have received positive sentiments.
3	Industrial Estate	Positive	FDI inflow will encourage demand for industrial land which will benefit DMAS and BEST; which are already dominated by Korean and Japanese ownership.
4	Construction and Toll Road	Positive	Benefited from simplification of land acquisition processes and land bank supervisory authority. Sovereign Wealth Fund would become new source of financing and support asset-recycling; focus on SOE contractors (WSKT, WIKA, PTPP, JSMR) given its highly leveraged balance sheet.
5	Tower-co	Positive	Removing towercos from the country's negative investment list could be a huge game changer. Market are likely to welcome any possible M&A; focus on TOWR, TBIG.
6	Retailers	Positive	Retailers benefited from value added tax (VAT) exemption for consignment sales and labor law revision; a positive sentiment for retailers (RALS, MAPI).
7	Manufacture i.e. textile, auto, tobacco	Neutral	Labor-intensive businesses in manufacturing sector such as textiles, auto, cigarettes will benefit from the potential efficiency and increased effectiveness of labor in the long run. On the flip side, labor law revision has become a social issue in the short-term and bring a radical change to country's labor system. The entry of foreigners can be a negative sentiment for existing players who are already dominant in the labor-intensive sector, especially automotive.
8	Telco Operator	Neutral	Spectrum sharing and/or transfer may benefit the small operators; less capex and open for consolidation. Lower and ceiling prices regulation could prevent tariff wars between operators, and boost healthy competition in the industry. Positive for TLKM, EXCL.
9	Healthcare and Hospital	Neutral	This sectors could enjoy simplification for licensing businesses and R&D innovation in healthcare segment; seeing in the opportunity for cost savings, easing the pressure on public systems, and access to better quality care. On the other hand, more FDI inflow in healthcare and hospital industries could increased competition.
10	Plantation	Neutral	The amendment, part of the "omnibus" bill on job creation, would eliminate an article in the 2014 Plantation Act requiring firms to use 30% of their land concessions within 3 years and plant 100% within 6 years, or risk having the land deemed as "abandoned," seized by the state and given to someone else to develop; company should develop the land bank in shorter time.
11	Metal and Coal Mining	Negative	The law allows provision of 0% royalty for coal players that increase the added value of coal (downstream); ADRO and INDY are most beneficiaries. Otherwise, coal miners should consider registering as entrepreneurs that are subject to VAT; charging 10% VAT on their purchase price (potential risk: burden sharing scheme).

Source: MNCS

Exhibit 09. Inward Foreign Direct Investment (% of GDP)



Sources: Fitch Ratings, UNCTAD, Haver Analytics, national statistical bodies

Exhibit 10. JCI Scenario

Source: MNCS

The Vaccine Development is a Long Stairway to Heaven

We believe that the successful of vaccine trials and the lockdown opening period are important issues for determining market direction. Currently, countries around the world are using different vaccine technologies to create and try the Covid-19 vaccine. While the Indonesian government said it has secured the procurement of the Covid-19 vaccine for 135 mn citizens (~270 mn doses) until FY21E. They have also reached a stage of finalization with several other vaccine providers, such as: 1) Collaboration Biofarma with Chinese counterpart to produce Sinovac; 2) Sinopharm in collaboration with KAEF; 3) Collaboration between KLBF and South Korea to provides Genexine (GX-19). The government will prioritize vaccination for healthcare workers, the Indonesian Defense Forces (TNI), police, other legal enforcement officers, and public services, totaling 3.4 mn people, with a requirement for 6.9 mn doses of the vaccine. 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. Many experts believes that vaccine will be ready to distribute in second half of FY21E. We expect the Covid-19 issue will gradually decrease in first half of FY21E, but the negative impact looming the economic downturn led to a recession and lowered the corporate credit rating both private and SOEs which will still frightened until FY21E.

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 and 3Q20. Investors should also pay attention to the high volatility that will occur ahead of the US election in early Nov-2020. We estimate, as long as the JCI does not break the support at 4,800, it has the potential to test its resistance at 5,381 level (Exhibit 10). Therefore, **MNCS recommends BUY on Weakness when the JCI approaches the 4,800-4,920 level** with a focus on **Banks, Property, Construction and Telco-Tower** sector particularly that benefited from current Omnibus Law, such as **BBCA (BUY; TP: IDR31,600), BBNI (BUY, TP:IDR5,700), BSDE (BUY; TP: IDR1,110), SMRA (HOLD; TP: IDR700), WSKT (BUY; TP: IDR790), WIKA (HOLD; TP: IDR1,290), TLKM (BUY; TP: IDR3,600), TOWR (BUY; TP: IDR1,150).** Meanwhile, there is a potential of short-term strengthening in the **Metal Mining Sector**, as government plans to build a USD12 bn nickel-based battery manufacturer.

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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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