Keeping Up with Recent Market Pulse

Key Takeaways

- FFR hike by +50 bps caused market turbulence, Wall Street indexes fell to bearish zone with tech stock suffer the most
- Outflows from equity has erased JCI return from 10% to only 3% YTD, yet still ranked 2nd in APAC driven by : 1) continuous recovery; 2) solid EPS growth; 3) commodity boom and 4) still manageable inflation compared to other countries. Be cautious of highly volatile market going forward.
- BI has room for 3x rate hikes FY22F assuming continues increase in core inflation and +4.36% YoY increase in CPI FY22F driven by volatile and adj. gov't prices.
- JCI lost -2.5% during FY18 tightening cycle. Our stock universe (>50% JCI weight) was traded down -8.3% at the same time. Stocks from companies with high leverage and weakening EBITDA/IntExp suffered the most.
- Solid earnings in 1Q22 (+38.0% YoY/26.0% run rate), driven by : 1) banks; 2) stocks related to commodities and 3) property.
- Strategy amidst volatility : reduce bank holdings, raise cash, focus on company leverage ratio.
- Our top picks : ASII, ARNA, BBRI, BMRI, BSDE, CTRA, DSNG, ERAA, MAPI, UNTR.

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The hawkish Fed & market turbulence

With inflation to record a 4-decade highs, Fed decided to take hawkish stance. In May-22, US CB raised FFR by 50 bps to 0.75-1.00%. The benchmark 10-year UST note yield jumped to 3%, the highest in the last 3 years and US equities particularly tech stocks crashed. The growth stocks drawdown (NDX -24% YTD) was even worse than in the last 2 tightening cycles & it took only in a matter of months to fall into bearish zone (Exhibit 1).

After a long holiday of Eid Fitr, domestic financial market tumbled. The IDR value drops against USD and hitting the lowest level in a year hovering around IDR14,600/USD. Meanwhile benchmark Indo GB yield rose +38bps to 7.38%, also the highest in a year. We noted, during market turbulence, domestic equity market experienced >IDR3tn outflows erasing JCI gain since the start of the year from nearly 10% to only +3.22% YTD. However JCI return was among the highest in APAC (Exhibit 2). We think the result was driven by several macro and micro factors : 1) improving economic condition along Covid-19 case decline as well as gov't easing policy; 2) solid EPS growth; 3) commodity boom and 4) still manageable inflation compared to other countries. We think domestic equity market will continue to be highly volatile going forward as external factors remain dominant : 1) Fed & other CB's interest rate hike agenda; 2) Russia-Ukraine war and 3) rising Covid-19 in China.

BI is setting the course of interest rate hike

Domestic CPI rose 3.47% YoY in Apr-22, the highest since Aug-19. Core inflation also increased to +2.60% YoY at the same time (Exhibit 3). Given a more persistent inflation from core CPI is still manageable and BI has variety of tools to support price stability and pro-growth policy, we foresee BI has room for 3x interest rate hike for FY22F assuming CPI to increase +4.36% YoY driven by volatile and gov't adjusted prices.

Reminiscing previous tightening cycle

Throughout 2018, the Fed raised FFR by +100 bps and BI followed the suit by increasing its 7-day reverse repo rate +175 bps. At that time, JCI recorded an annual return of -2.5%, while our universe (>50% JCI weight) median return posted a loss of -8.3%. Our banking universe dropped by -8.0%. Only BBCA that survive from correction, we believe this was attributable strong CASA structure as BBCA's main competitive advantage that minimized the impact of rising CoF. Meanwhile other banks suffered losses ranging from -6.1% to -30.7%. We also noted that highly leveraged sectors such as : 1) telco; 2) construction; 3) property and high equipment came under pressure. Some sectors that employed deleveraging strategy and improving EBITDA/interest expense : 1) retails; 2) metal mining; 3) poultry and 4) basic industry outperformed (Exhibit 4 & 5).

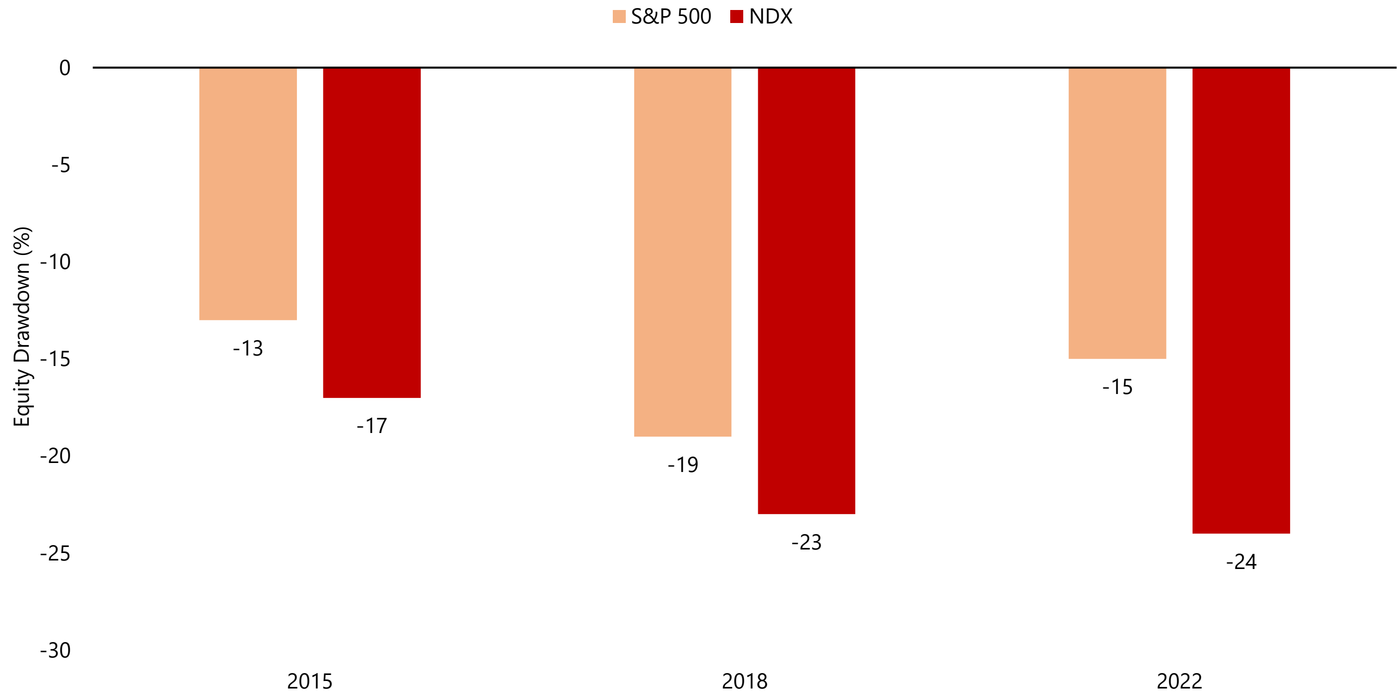
Solid earnings in 1Q22

Our stock universe (~48% JCI weight) booked an increase in cumulative earnings of +38.0% YoY in 1Q22., implying 26.0% run rate and in-line with consensus estimate (~44.1% above; ~41.2% below and ~14.7% below). Most of banks in our universe were above consensus estimate thanks to : 1) front loading provisioning strategy and 2) strengthening CASA franchise. Stocks like ITMG, PGAS and UNTR were also benefitting from current high commodity prices booking stellar YoY EPS growth and >30% consensus run rate. Low interest rate environment as well as resuming public mobility also benefit property sector causing revenue and bottom line to increase >15% YoY and >40% YoY respectively (Exhibit 6).

Recommended strategy amidst highly volatile market

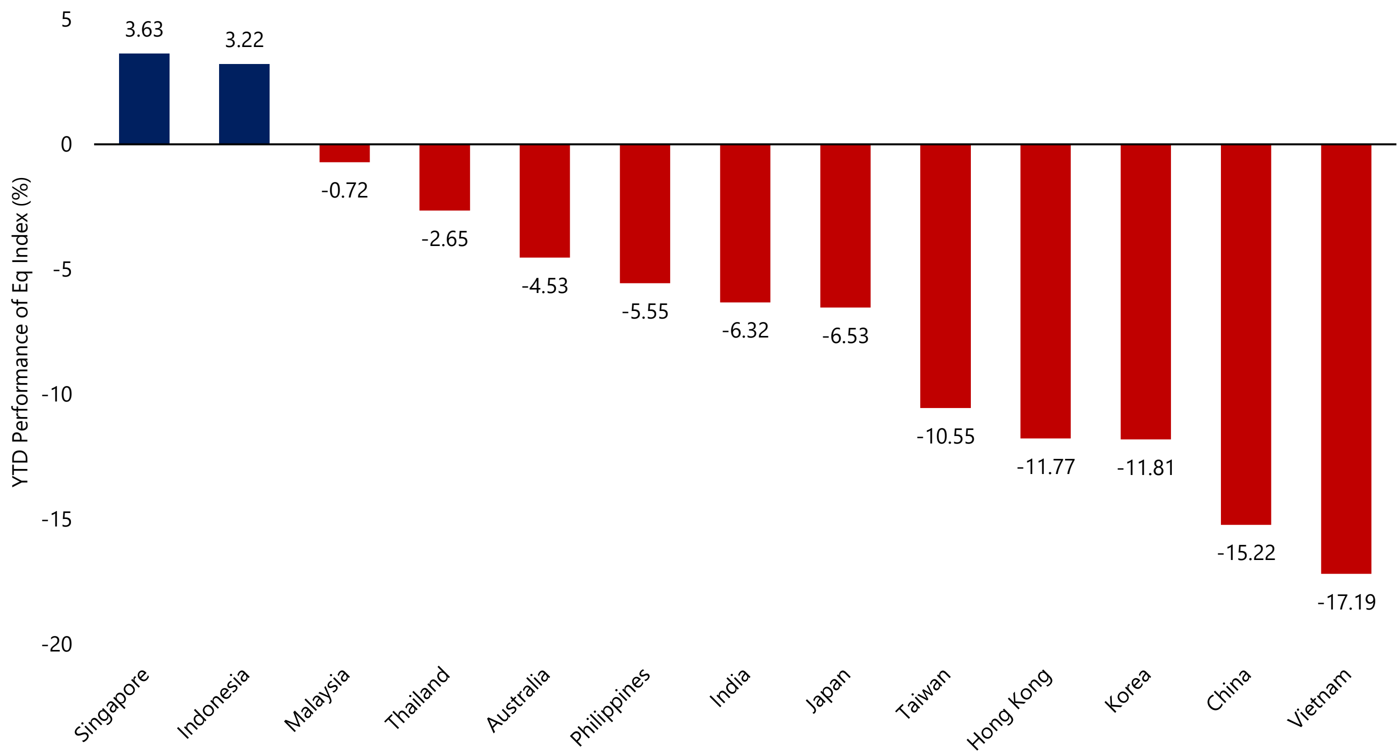
As markets eye on interest rate hike, we recommend stock investors to focus on companies' leverage strategy. Favoring companies with healthy leverage ratio for stock picking as higher borrowing cost is already in sight. Albeit CASA structure tend to contribute the largest TPF, banks heavy weight on JCI is likely to suffer during tightening cycle given the potential outflows. Therefore we recommend to reduce banking stock holdings in an equity portfolio. We already trimmed banking stock holdings from 46% to 27% in our hypothetical portfolio. In order to anticipate another market sell off and highly volatile prices of financial assets, we recommend investor to raise cash for averaging down or buying undervalued stocks. We set our cash balance in our hypothetical portfolio to 5-10%. Our strategy employed 6 pillars : 1) valuation; 2) momentum; 3) ESG; 4) index weight and inclusion; 5) beta as well as 6) leverage ratio focus. We continue to like : **ASII, ARNA, BBRI, BMRI, BSDE, CTRA, DSNG, ERAA, MAPI, and UNTR.** Our strategy has delivered superior return of +16.1% YTD outperforming JCI (+3.2% YTD). See Exhibit 7 & 8 for further details.

Exhibit 1. US equity market tumbled in the last 3 tightening cycles



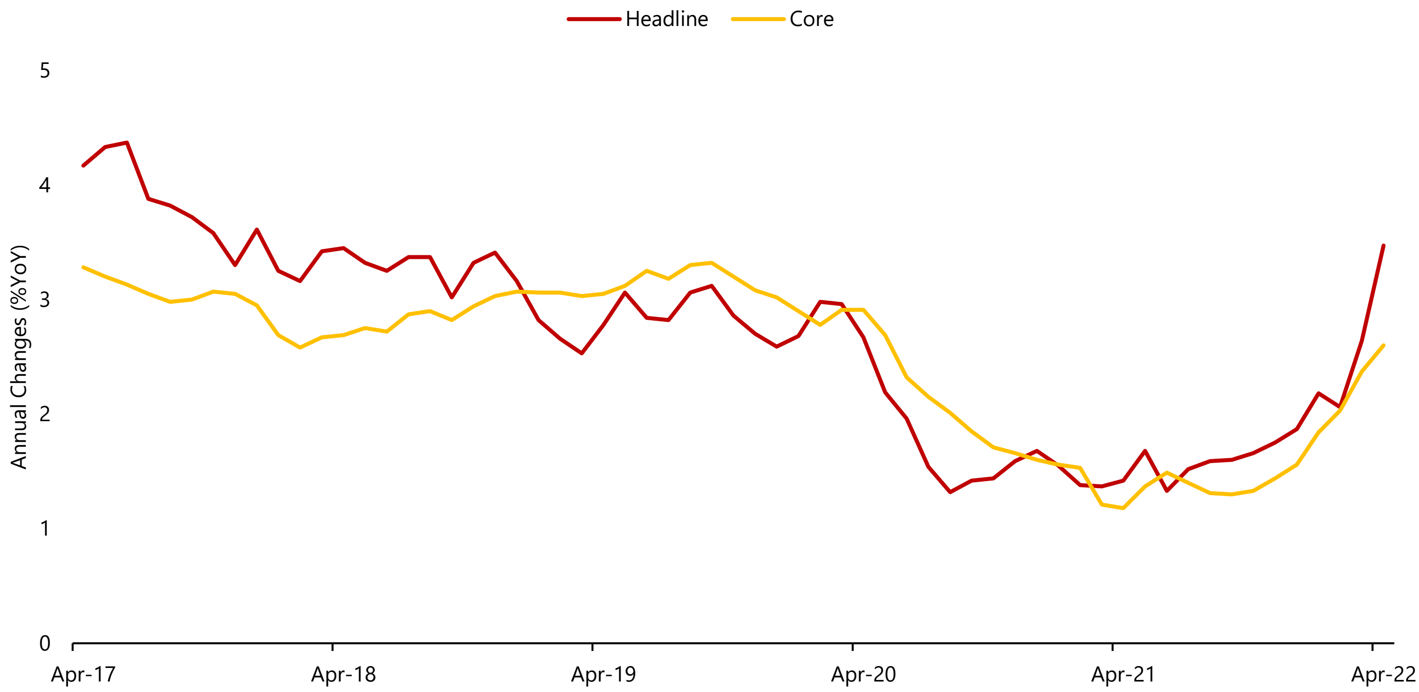
Note : 2022 figure YTD, sources : Bloomberg, MNCS

Exhibit 2. Fed's tightening triggered outflows and reducing JCI gain from 10% to 3% YTD, yet still ranked 2nd in APAC



Note : based on YTD figure, sources : Bloomberg, MNCS

Exhibit 3. Domestic inflation continues to pick up and expecting +4.36% YoY FY22F with BI to raise 7-day reverse repo 2-3x



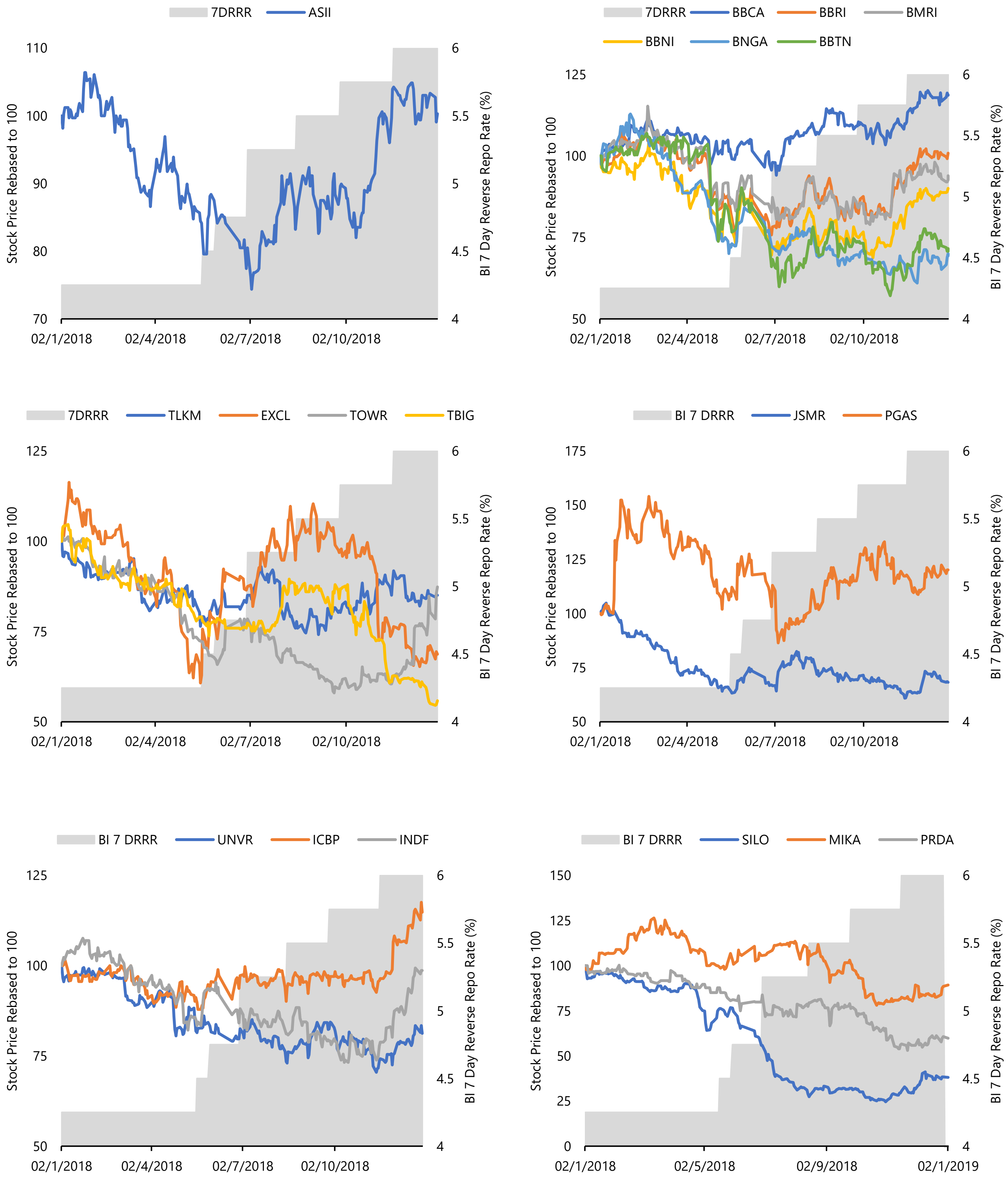
Sources : Statistics Indonesia, MNCS

Exhibit 4. Highly levered stocks suffered the most during tightening cycle

Sectors	Median Debt/EBITDA			Median EBITDA/Interest Expense			Price Change During Tightening
	FY16	FY17	FY18	FY16	FY17	FY18	
Conglomerate	4.9	4.9	4.7	14.4	13.8	11.7	0
Telco	**3.2**	**3.4**	**3.9**	**6.3**	**5.9**	**5.0**	**-23**
Utilities	6.1	7.2	7.5	4.6	5.1	4.7	-6
Consumers	2.0	2.0	1.8	29.4	36.7	29.3	-1
Healthcare	**1.9**	**2.1**	**1.4**	**18.7**	**24.6**	**43.5**	**-39**
Retails	*3.7*	*3.2*	*2.3*	*3.7*	*4.6*	*4.5*	*28*
Construction	**12.1**	**10.1**	**12.8**	**4.0**	**4.1**	**3.7**	**-19**
Property	**5.4**	**3.3**	**7.7**	**3.5**	**3.1**	**2.5**	**-13**
Agriculture	1.8	1.5	2.3	25.3	31.5	15.8	-6
Coal Mining	2.7	1.2	1.1	19.9	63.6	67.6	-1
Metal Mining	*2.8*	*3.3*	*2.5*	*2.1*	*11.3*	*9.2*	*20*
Poultry	*2.7*	*3.5*	*2.3*	*6.4*	*6.0*	*8.8*	*89*
Cigarette	1.4	1.3	1.3	380.0	340.2	301.4	-10
Cements	1.9	3.8	3.9	163.9	70.9	32.7	-4
Basic	*4.1*	*3.0*	*2.5*	*7.6*	*9.2*	*15.4*	*24*
Equipment & Others	**3.4**	**3.7**	**5.2**	**25.3**	**41.2**	**16.2**	**-25**

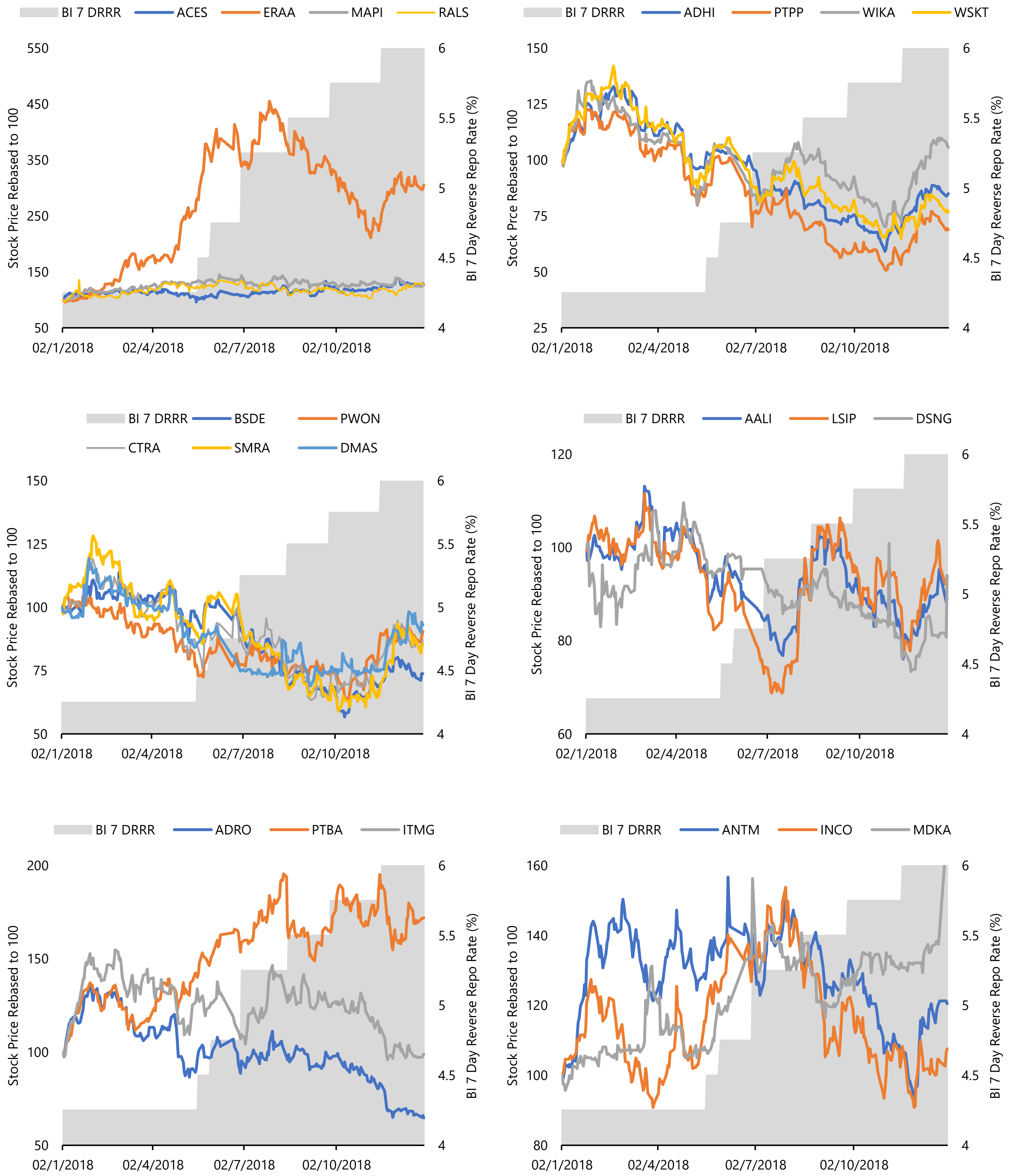
Note : bold represents highly levered sectors with weakening coverage ratio, italic represents low levered sectors with improving coverage ratio, 2018 tightening cycle, sources : Bloomberg, Companies, MNCS

Exhibit 5. Details on MNCS universe stock performance during FY18 tightening cycle



Sources : Bloomberg, MNCS

Exhibit 5. Details on MNCS universe stock performance during FY18 tightening cycle



Sources : Bloomberg, MNCS

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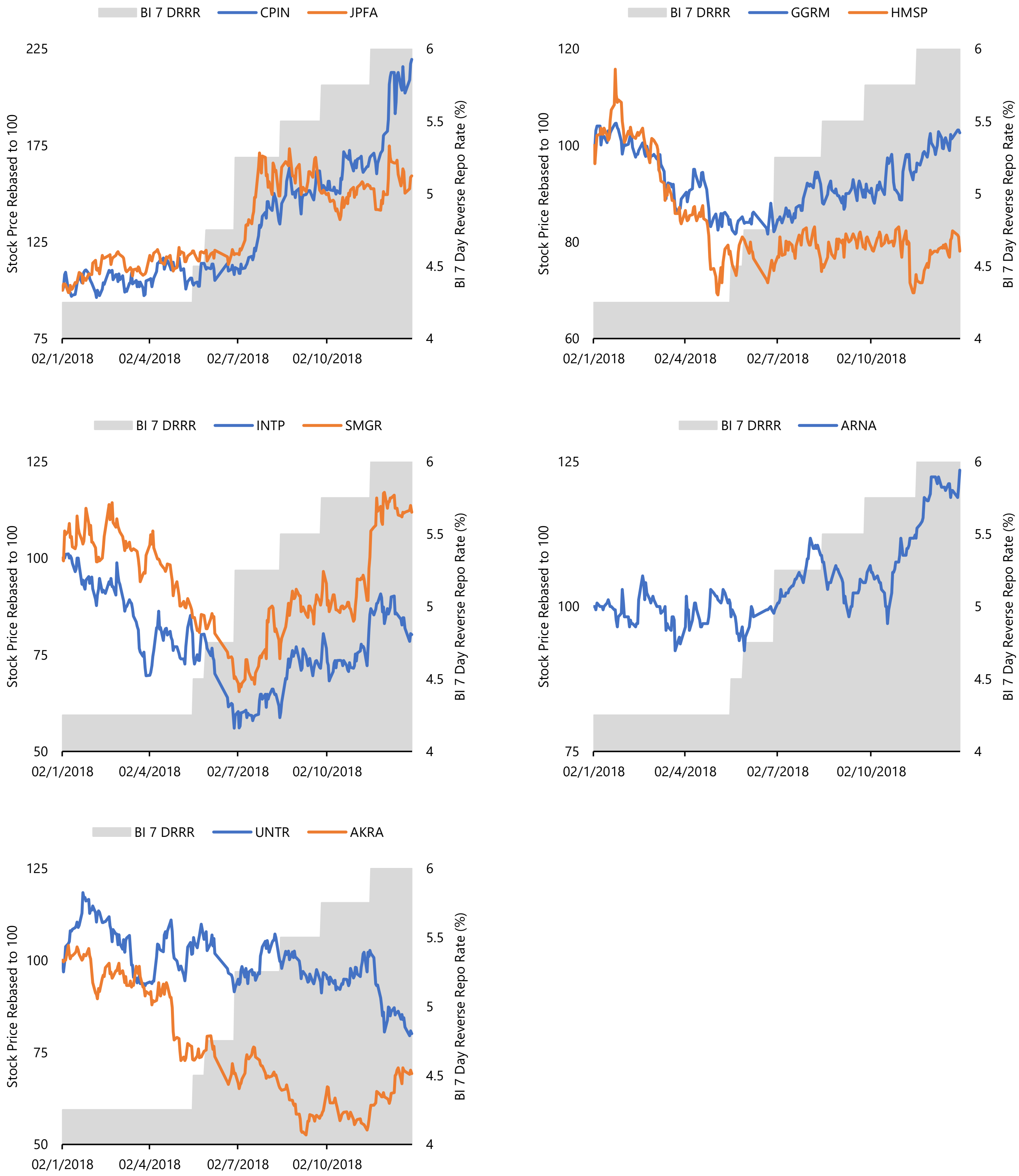


Sources : Bloomberg, MNCS

Exhibit 6. Solid earnings in 1Q22 (+38.0% YoY; 26.0% run rate)

Sector	Stocks	Mkt Cap (IDR bn)	Index Weight (%)	Net Profit		Notes
				YoY	Run Rate	
Conglomerate	ASII	284,397	4.94	84%	27%	Above
Banking	BBCA	924,563	8.13	15%	22%	Below
	BBNI	162,243	2.46	66%	25%	In-line
	BBRI	683,531	8.19	78%	29%	Above
	BMRI	371,000	5.64	69%	29%	Above
	BNGA	25,383	0.06	20%	27%	Above
	BBTN	17,685	0.27	24%	28%	Above
Telco	TLKM	422,005	7.77	2%	24%	In-line
	EXCL	29,922	0.44	-57%	10%	Below
Utilities	JSMR	27,725	0.32	143%	27%	Above
	PGAS	37,817	0.63	93%	43%	Above
Consumer	UNVR	185,791	1.03	19%	33%	Above
Healthcare	SILO	13,266	0.09	-31%	17%	Below
	MIKA	37,753	0.53	-15%	25%	In-line
	PRDA	6,000	0.06	-34%	18%	Below
Retail	ACES	17,407	0.27	-5%	20%	Below
	RALS	4,790	0.04	-135%	9%	Below
Construction	ADHI	2,457	0.05	29%	4%	Below
	PTPP	5,518	0.10	-26%	5%	Below
Property	BSDE	19,266	0.25	-42%	23%	Below
	SMRA	11,355	0.24	368%	38%	Above
	DMAS	8,290	0.06	44%	40%	Above
Agriculture	AALI	23,241	0.18	198%	19%	Below
	DSNG	5,830	0.07	105%	17%	Below
Coal Mining	ADRO	102,355	1.72	458%	24%	In-line
	ITMG	37,570	0.46	407%	31%	Above
Metal Mining	INCO	71,790	0.56	101%	23%	Below
Poultry	JPFA	16,534	0.27	-30%	31%	Above
Cigarette	GGRM	58,637	0.37	-38%	18%	Below
	HMSP	120,389	0.34	-26%	25%	In-line
Cement	INTP	35,064	0.61	-48%	11%	Below
Basic	ARNA	7,305	0.11	44%	30%	Above
Equipment & Others	UNTR	112,184	1.75	131%	32%	Above
	AKRA	20,876	0.30	40%	32%	Above
Total		**3,909,939**	**48.32**	**38%**	**26%**	**In-line**

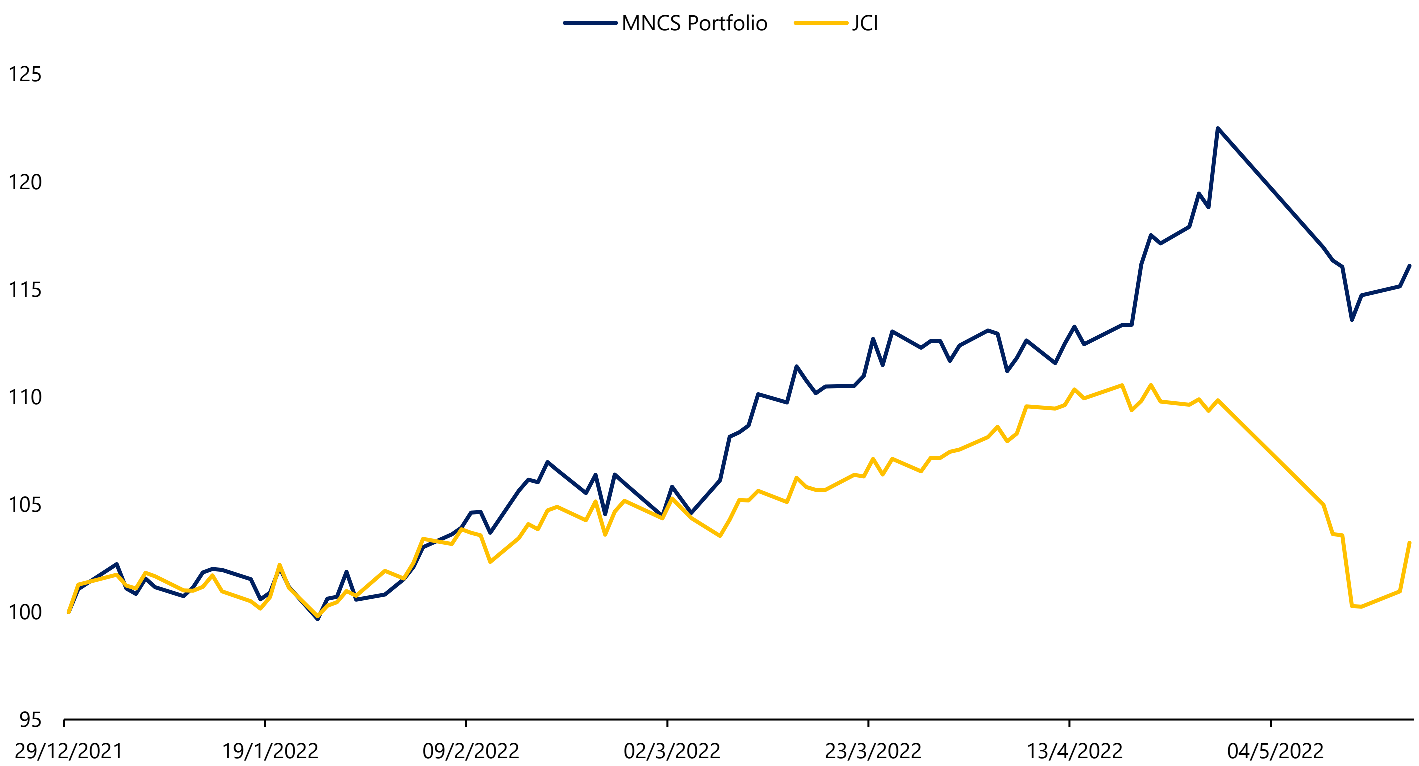
Sources : Bloomberg, MNCS

Exhibit 7.MNCS Top Picks

Stocks	Current Price	Target Price	Upside Potential	P/E FY22F	P/E FY23F	P/B FY22F	P/B FY23F	3-Yr Avg EBITDA/ IntExp	LTM EBITDA/ IntExp	Beta	EIDO	Rating
ASII	7,100	7,425	5%	14.63	14.14	1.54	1.43	11.5	17.3	1.35	Yes	HOLD
ARNA	1,025	1,100	7%	12.60	11.80	3.99	3.57	70.5	135.9	0.83	No	HOLD
BBRI	4,450	5,500	24%	14.59	10.57	2.12	1.88	n.a	n.a	1.41	Yes	BUY
BMRI	7,900	8,900	13%	9.67	8.08	1.48	1.31	n.a	n.a	1.40	Yes	BUY
BSDE	905	1,500	66%	11.45	9.97	0.52	0.44	1.7	1.3	1.30	Yes	BUY
CTRA	990	1,300	31%	14.08	12.67	1.03	1.03	2.4	2.4	1.48	Yes	BUY
DSNG	535	800	50%	9.24	8.11	0.73	0.73	2.6	3.2	0.98	No	BUY
ERAA	500	1,000	100%	6.41	5.90	0.94	0.85	7.1	10.5	1.50	Yes	BUY
MAPI	900	1,000	11%	19.15	16.43	1.99	1.78	7.5	5.2	1.38	Yes	BUY
UNTR	30,300	33,700	11%	12.18	10.42	1.52	1.41	28.0	52.3	1.02	Yes	BUY

Sources : Bloomberg, MNCS

Exhibit 8.Our strategy has delivered superior return of +16% YTD (vs +3.2% JCI)



Sources : Bloomberg, MNCS

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

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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