

## Earnings look compelling yet facing a challenging macro factors



### Key Takeaways

- Earnings in 1H22 look compelling. From 47 companies (LQ45+MNCS Universe) that already reported their financial performance mostly above consensus estimate (45%), 21% in-line and 34% below.
- Cumulative earnings grew by +72% YoY implying 56% FY22E run rate including tech, whilst, excluding tech, net profit rose by +61% YoY with 53% run rate for FY22E in 1H22.
- Foreign inflows start to come to both govt bond and equity. Earnings figure has become positive catalyst for JCI valuation yielding >9% YTD. JCI sectoral movement was dragged up by energy, industrial and transportation & logistics reflecting current condition of high commodity prices.
- Albeit having a compelling earnings figure, financials & property sectors underperformed, which we believe to offer interesting opportunity to buy at a discount valuation for tactical purpose.
- Looking ahead, government fuel price policy adjustment may have two implication for stock investors as it increase inflation outlook. First it may hinder GDP & EPS growth through interest rate channel, second it may cause JCI de-rating through risk free rate channel.

#### Victoria Venny N.S

Head of Research

[victoria.nawang@mncgroup.com](mailto:victoria.nawang@mncgroup.com)

#### Tirta Widi Gilang Citradi

Economist & Fixed Income Analyst

[tirta.citradi@mncgroup.com](mailto:tirta.citradi@mncgroup.com)

### 1H22 short earnings recap : looks compelling

For 47 companies (LQ45+MNC Universe) that already reported a quarterly financial performance, most of them posted earning surprised. About 45% from those companies aforementioned, recorded 1H22 earnings above consensus estimate, whilst 21% in-line and 34% below consensus forecast. The companies bottom line grew by +72% YoY including tech, whereas, taking out tech sector net income jumped by +61% YoY. Key earning drivers coming from financials and commodity related sectors as we have expected. Our takes from 1H22 companies financial performance as follows :

- **Financials** : earnings jumped 59% YoY 1H22 implying 53% run rate for FY22E, largely driven by continued lower CoF and provisioning expense as asset quality improved.
- **Coal** : bottom line grew significantly (+372% YoY) giving a run rate of 48% FY22E, still in-line with consensus estimate. High coal price has been a positive catalyst for companies financial performance. Note that benchmark Newcastle coal average price hit USD352/mt in 2Q22 (+43% QoQ/+236% YoY).
- **Oil & Gas** : another positive catalyst coming from O&G sectors. With global oil prices averaging >USD100/bbl, domestic O&G sectors posted +300% YoY growth in 1H22 with a 66% run rate of FY22E.
- **Retail** : earnings surprisingly increased by +127% YoY in 1H22 (72% run rate of FY22E). We see a positive catalyst from improving public mobility and higher consumption which is reflected by +5.51% YoY increase in household consumptions in 2Q22.
- **Consumers** : bottom line decreased by -21% YoY and below consensus estimate in 1H22, largely driven by earnings from cigarette producers which we think driven by unfavorable fiscal policy.
- **Telco** : net profit increased moderately +6% YoY in 1H22 and remained in-line with consensus estimate (+51% run rate of FY22E). Earnings growth primarily driven by TLKM IJ that booked a net profit growth of +7% YoY, while EXCL IJ recorded a decline of -14% YoY.
- **Property** : low interest rates environment causing a downtrend in mortgage rate as well as favorable fiscal policy through government-borne VAT incentives could spur growth in property demand. On the other hand, higher mobility is also positive for the rental income from retail malls and hotels. Property sectors earnings accelerated +55% YoY in 1H22, yet in-line with consensus estimate (+50% run rate FY22E).
- **Techs** : earnings tuned to positive in 1H22 and the key driver coming from BUKA IJ. Note that from ~IDR8.6tn net profit of BUKA IJ coming from unrealized and realized gain from investment which we think is a non-core operation from BUKA IJ business model. This coming from acquisition of BBHI IJ that is recorded as profit by companies.
- **Healthcare** : earnings shrank by -12% YoY in 1H22 and below consensus estimate of (+45% run rate FY22E). We believe lower Covid-19 cases to have a negative impact on this sector financial performance.

Overall, earnings figure looks compelling despite some sectors are lagged behind (healthcare, poultry, cement & construction). We believe this should also reflect a continued economic recovery momentum, albeit global macro challenges from war, inflation and restrictive monetary policy.

### Foreign flows & JCI sectoral movers

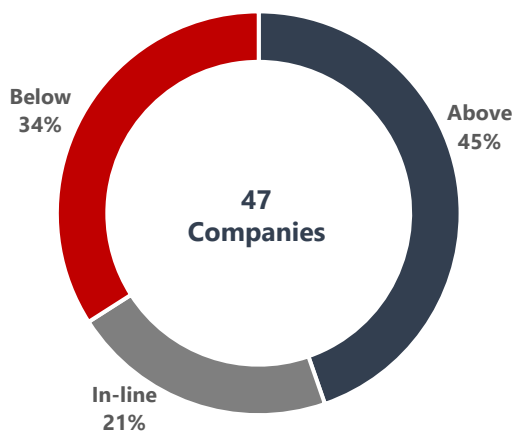
In Aug-22, domestic financial markets experienced a portfolio inflows of ~IDR22tn reverting from previous outflows of ~IDR90tn (May-Jul) when Fed's decided to raise interest rates aggressively along with IDR depreciation. We also noted that in Aug-22, inflows come to both government bond and equity market. From a sectoral views, energy, industrial and transportation & logistic index outperformed with a return of 23-69% YTD mimicking current cyclical condition of high commodity prices. Interestingly some sectors that also booked significant increase in earnings such as financials, property and tech are still lag behind. On a tactical, perspective this may offer opportunity to buy at a discounted valuation particularly in banking and property, expecting for a short term rebound.

### Looking ahead : challenging macro condition & implication for equity

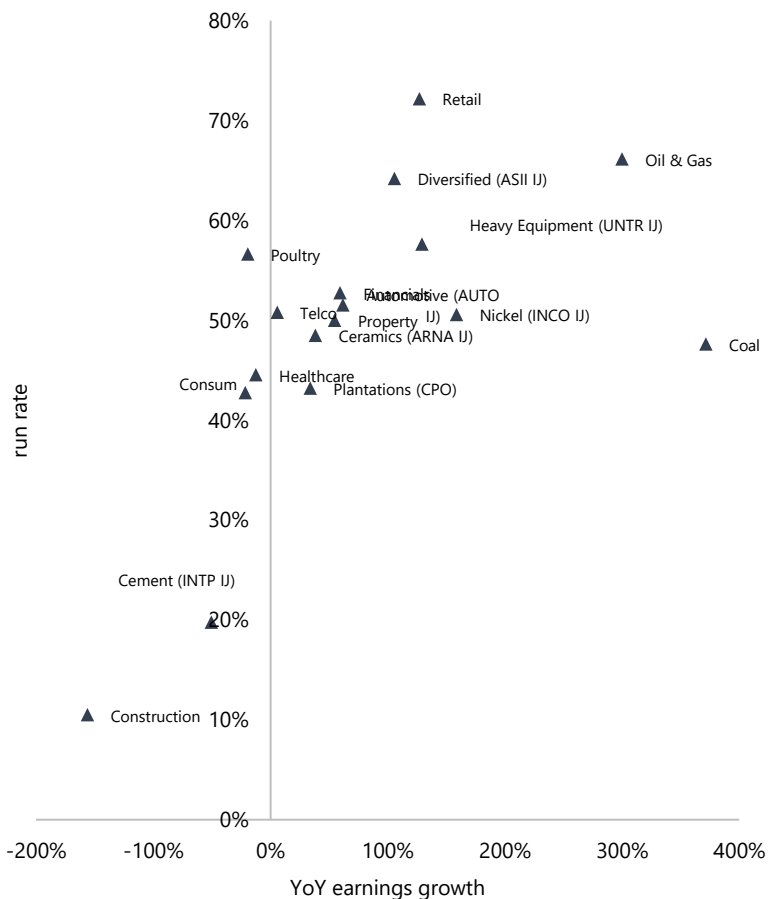
Indeed, domestic economy continued to strengthen. However, going forward, Indonesia's economy faces a challenge from fuel price policy. Windfall profit from high commodity boom (>IDR400tn) is followed by rising energy subsidies (>IDR350tn). Govt still cover >60% fuel subsidy (Pertalite, Solar & LPG 3 kg) due to lower market domestic price compared to its economic value. For every USD1/bbl increase in oil price will add cost of subsidy & compensation by IDR2-4tn, based on our calculation. With oil price averaging at USD105/bbl this year & assuming oil prices will be kept subsidized, govt will need more IDR180-190tn to cover price gap. Hence, govt will need to reallocate the budget which we think is unlikely due to the urgency of fiscal consolidation. Another challenge remain on who will benefits from subsidy as the poor only account <10% of beneficiary.

The implication for adjusting subsidized fuel price will be inflationary. Our calculation showed that for 1% increase in oil price will add 0.09% of inflation and thus BI will need to raise policy rate if govt adjust the price & such may hinder growth. With higher inflation and highly possible to overshoot from the upper target of 4% could have to implication for stock. First, higher inflation meaning higher interest rates and borrowing cost, such circumstance may hinder GDP and earning growth, although there is a lag period of monetary policy transmission. Thus we expect a more normalized EPS growth in FY23E. Second, higher inflation and interest rates could possibly increase valuation risk for both government bond and equity. With the potential risk free rate increase, JCI P/E adjustment is likely. We expect JCI P/E to be at 13.1-14.4x for FY23E target (vs 14.4x-15.1x FY22E). In addition, high commodity prices may also peak this year and start to gradually decline next year, which could cause trade surplus and may result in deficit CA balance, thus the outlook for IDR may still depreciating. All in all, with :1) higher risk free rate; 2) IDR depreciation & volatility trend as well as 3) lower private sector surplus due to fiscal consolidation and CAD, this could be negative catalyst for stock market.

Exhibit 1. Earnings updates for 1H22



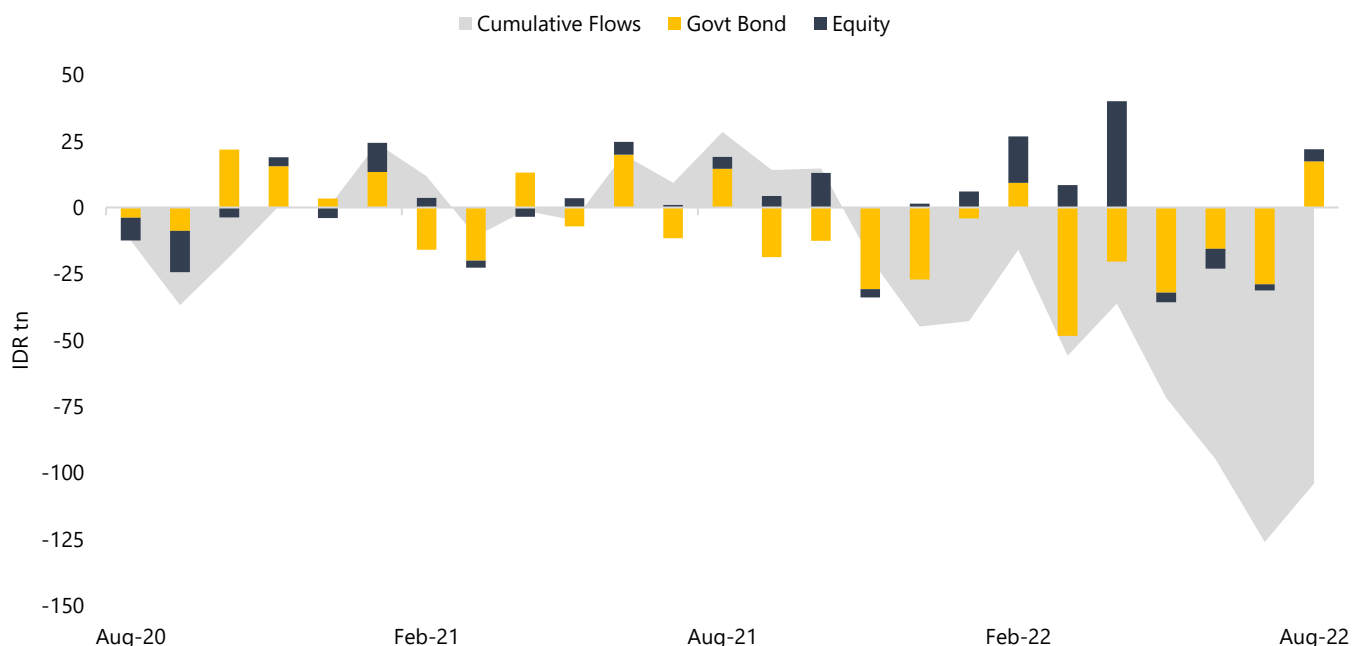
YoY earnings growth vs run rate by sectors



Ticker	Companies	1H22	1H21	YoY	Cons	Run rate	Note	Sectors
AUTO IJ	Astra Otoparts Tbk PT	432	267	62%	839	51.5%	In-line	Automotive
INTP IJ	Indocement Tunggul Prakarsa Tbk PT	292	587	-50%	1,475	19.8%	Below	Cement
ARNA IJ	Arwana Citramulia Tbk PT	306	221	38%	631	48.5%	In-line	Ceramic
PTBA IJ	Bukit Asam Tbk PT	6,157	1,779	246%	12,064	51.0%	In-line	Coal
INDY IJ	Indika Energy Tbk PT	2,900	172	1590%	6,111	47.5%	In-line	Coal
ITMG IJ	Indo Tambangraya Megah Tbk PT	6,661	1,682	296%	15,229	43.7%	Below	Coal
HRUM IJ	Harum Energy Tbk PT	2,110	148	1325%	4,014	52.6%	Above	Coal
PTPP IJ	PP Persero Tbk PT	87	86	1%	304	28.6%	Below	Construction
WSKT IJ	Waskita Karya Persero Tbk PT	(237)	154	-253%	(1,776)	13.3%	Below	Construction
ADHI IJ	Adhi Karya Persero Tbk PT	10	8	24%	148	6.9%	Below	Construction
UNVR IJ	Unilever Indonesia Tbk PT	3,430	3,046	13%	6,348	54.0%	Above	Consumers
HMSP IJ	Hanjaya Mandala Sampoerna Tbk PT	3,048	4,134	-26%	6,823	44.7%	Below	Consumers
SIDO IJ	Industri Jamu Dan Farmasi Sido Muncul Tbk PT	446	502	-11%	1,140	39.1%	Below	Consumers
GGRM IJ	Gudang Garam Tbk PT	956	2,353	-59%	4,115	23.2%	Below	Consumers
ASII IJ	Astra International Tbk PT	18,174	8,831	106%	28,308	64.2%	Above	Diversified
BMRI IJ	Bank Mandiri Persero Tbk PT	20,209	12,501	62%	37,610	53.7%	Above	Financials
BFIN IJ	BFI Finance Indonesia Tbk PT	829	487	70%	1,475	56.2%	Above	Financials
BNGA IJ	Bank CIMB Niaga Tbk PT	2,534	2,132	19%	4,541	55.8%	Above	Financials
BBRI IJ	Bank Rakyat Indonesia Persero Tbk PT	24,786	12,473	99%	45,790	54.1%	Above	Financials
BBNI IJ	Bank Negara Indonesia Persero Tbk PT	8,803	5,027	75%	16,341	53.9%	Above	Financials
BRIS IJ	Bank Syariah Indonesia Tbk PT	2,131	1,481	44%	4,049	52.6%	Above	Financials
BBCA IJ	Bank Central Asia Tbk PT	18,049	14,456	25%	36,701	49.2%	In-line	Financials
ARTO IJ	Bank Jago Tbk PT	29	(47)	n.a	121	23.9%	Below	Financials
MIKA IJ	Mitra Keluarga Karyasehat Tbk PT	530	616	-14%	1,075	49.3%	In-line	Healthcare
KLBF IJ	Kalbe Farma Tbk PT	1,637	1,497	9%	3,545	46.2%	Below	Healthcare
HEAL IJ	Medikaloka Hermina Tbk PT	164	545	-70%	613	26.8%	Below	Healthcare
UNTR IJ	United Tractors Tbk PT	10,357	4,516	129%	17,974	57.6%	Above	Heavy Equipment
INCO IJ	Vale Indonesia Tbk PT	2,175	840	159%	4,299	50.6%	In-line	Nickel
MEDC IJ	Medco Energi Internasional Tbk PT	3,904	665	487%	5,804	67.3%	Above	Oil & Gas
AKRA IJ	AKR Corporindo Tbk PT	955	550	74%	1,541	62.0%	Above	Oil & Gas
DSNG IJ	Dharma Satya Nusantara Tbk PT	463	208	123%	869	53.3%	Above	Plantation
LSIP IJ	Perusahaan Perkebunan London Sumatra Indonesia Tbk PT	549	501	9%	1,259	43.6%	Below	Plantation
AALI IJ	Astra Agro Lestari Tbk PT	809	649	25%	2,087	38.8%	Below	Plantation
CPIN IJ	Charoen Pokphand Indonesia Tbk PT	2,417	2,833	-15%	4,250	56.9%	Above	Poultry
JPFA IJ	Japfa Comfeed Indonesia Tbk PT	1,112	1,543	-28%	1,981	56.1%	Above	Poultry
DMAS IJ	Puradelta Lestari Tbk PT	660	289	129%	1,058	62.4%	Above	Property
CTRA IJ	Ciputra Development Tbk PT	1,005	483	108%	1,678	59.9%	Above	Property
SMRA IJ	Summarecon Agung Tbk PT	255	109	135%	516	49.3%	In-line	Property
PWON IJ	Pakuwon Jati Tbk PT	754	465	62%	1,611	46.8%	Below	Property
BSDE IJ	Bumi Serpong Damai Tbk PT	464	680	-32%	1,410	32.9%	Below	Property
RALS IJ	Ramayana Lestari Sentosa Tbk PT	286	138	108%	306	93.4%	Above	Retail
MAPI IJ	Mitra Adiperkasa Tbk PT	1,031	272	280%	1,196	86.2%	Above	Retail
ACES IJ	Ace Hardware Indonesia Tbk PT	242	277	-12%	658	36.9%	Below	Retail
BUKA IJ	Bukalapak.com PT Tbk	8,593	(766)	n.a	(932)	921.8%	Above	Tech
EMTK IJ	Elang Mahkota Teknologi Tbk PT	2,705	265	922%	1,395	193.9%	Above	Tech
TLKM IJ	Telkom Indonesia Persero Tbk PT	13,310	12,451	7%	26,125	50.9%	In-line	Telco
EXCL IJ	XL Axiata Tbk PT	615	716	-14%	1,289	47.7%	In-line	Telco
<b>Total with Tech</b>		<b>177,135</b>	<b>102,819</b>	<b>72%</b>	<b>314,004</b>	<b>56%</b>	<b>Above</b>	
<b>Total exclude Tech</b>		<b>165,837</b>	<b>103,321</b>	<b>61%</b>	<b>313,541</b>	<b>53%</b>	<b>In-line</b>	

Sources : Bloomberg, Companies, MNCS Research

## Exhibit 2. Foreign flows to domestic financial markets



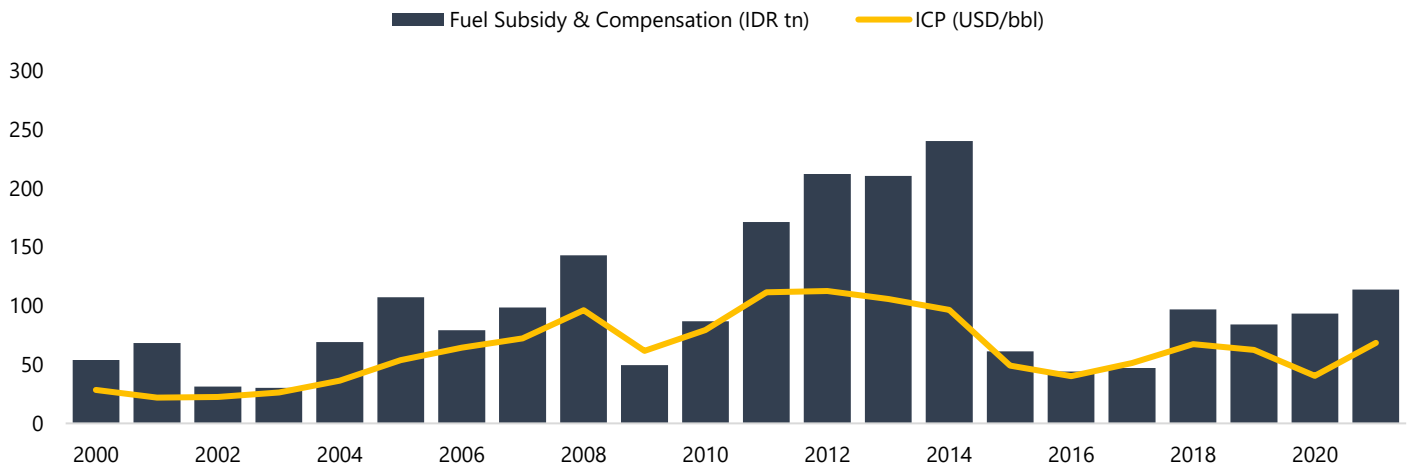
Sources : DMO, IDX, MNCS Research

**Exhibit 3. JCI & sectoral movements**

Period	JCI	Energy	Trans	Industrial	Cyclical	Non-Cyc	Basic	Finance	Health	Property	Techno	Infra
Jan-22	0.8%	13.6%	6.6%	-0.5%	-1.6%	-1.1%	-1.3%	2.2%	2.2%	-7.8%	-12.3%	-4.2%
Feb-22	3.9%	2.3%	4.6%	4.3%	6.2%	-1.2%	2.8%	4.3%	-2.6%	1.1%	2.5%	8.8%
Mar-22	2.7%	11.9%	3.9%	6.8%	1.2%	1.1%	6.1%	-0.2%	-0.8%	2.2%	6.8%	-2.7%
Apr-22	2.2%	9.3%	3.1%	10.4%	-1.4%	1.3%	2.5%	0.7%	5.0%	-1.0%	0.8%	3.9%
May-22	-1.1%	8.1%	21.8%	2.6%	-1.5%	6.8%	2.8%	-5.9%	1.9%	-1.9%	-11.4%	-5.5%
Jun-22	-3.3%	-6.4%	-15.1%	-7.0%	-3.5%	1.8%	-12.9%	-6.6%	1.3%	-5.1%	2.3%	1.0%
Jul-22	0.6%	13.4%	-0.5%	8.1%	1.3%	-2.9%	5.1%	4.3%	-4.4%	1.6%	-2.2%	2.4%
Aug-22	3.7%	3.8%	0.2%	1.1%	-1.3%	1.5%	1.6%	-0.2%	-1.5%	2.7%	2.7%	4.6%
<b>YTD</b>	<b>9.5%</b>	<b>69.2%</b>	<b>23.1%</b>	<b>27.7%</b>	<b>-1.0%</b>	<b>7.4%</b>	<b>5.6%</b>	<b>-1.9%</b>	<b>0.8%</b>	<b>-8.4%</b>	<b>-11.9%</b>	<b>7.8%</b>

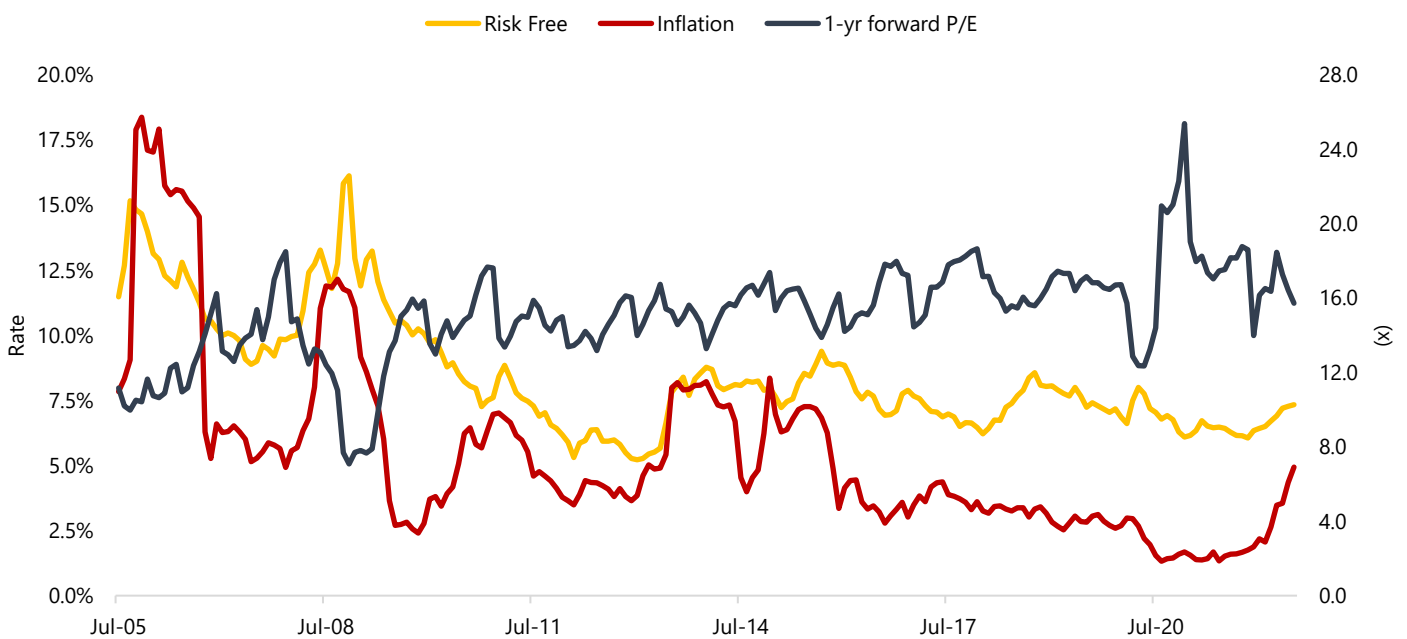
Sources : Bloomberg, MNCS Research

**Exhibit 4. Oil prices vs government bond subsidy and compensation**



Sources : MEMR, MoF, MNCS Research

**Exhibit 5. Inflation, risk free & JCI forward P/E**



Sources : Bloomberg, Statistics Indonesia, MNCS Research

## 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

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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

## PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16

Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340

Telp : (021) 2980 3111

Fax : (021) 3983 6899

Call Center : 1500 899

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