ECONOMIC & INVESTMENT OUTLOOK 2023

Strategizing the proper balancing act

MNCS Research Division I 6 January 2023

Macro-Bond-Equity-Strategy

Please refer to important disclosures at the end of this report

ECONOMIC & INVESTMENT OUTLOOK 2023

Strategizing the proper balancing act

Key Insights :

Global Macro
Domestic Macro
Capturing Momentum
Market Outlook & Risk Assessment
Key Investment Themes
Sectoral Views
Investment Strategy
Forecasts

Insights Summary

Global Macro

Global economy is expected to face a slowdown in 2023 driven by advanced economies & emerging markets. US recession risk is rising along with yield curve inversion. EU energy crisis is likely to persist. Weak external demand overshadows Japan's exports and China's unplanned exit strategy on Covid measures seems to be costly despite policy to revive its property sector.

Domestic Macro

Domestic economy could also be affected by sluggish external demand due to rising borrowing cost and geopolitical frictions. Ensuring smooth fiscal consolidation is essential for stability, on top of firming monetary policy to contain IDR depreciation against USD and anchoring inflation. However, global decoupling that trigger energy crisis is in favor for Indonesia. FDI increased substantially and hitting a record high in FY22. Given the bold policy reform to attract investment, we believe this should improve Indonesia's competitiveness among peers. On the other hand, during the regime of strong USD and possibly tighter for longer rates, Indonesia looks less vulnerable as debt level remains manageable and sufficient reserves is maintained.

Capturing Momentum

Throughout 2022, domestic financial market has proven to be resilient enough. Foreign fund flows have flooded equity market, while in the government bond foreign net sold. Yet, the trend revert as the momentum approaching end-year resulting financial asset re-pricing. This might be viewed as way to rationalize valuation as stock market behavior seemed to detach from less risky asset. On the other hand, foreign flows reversal from equity to bond can be seen as a rotation strategy into a more defensive play. Even with highly volatile market throughout 2022, funding activities either from equity or debt financing continuously improving reflecting that market remains functioning properly despite all the substantial pressure from dried-up liquidity. With domestic investors to continue growing, domestic capital market will be more resilient going forward.

Market Outlook & Risk Assessment

For 2023, growth to likely experience a moderation both in top & bottom line due to high base of FY22. Companies may take a conservative acts on capex to maintain liquidity and strengthen balance sheet. Companies under our universe (~60% weight of JCI) are deleveraging and thus could favor JCI resilient. For government bond rating affirmation on the back of fiscal consolidation would result in limiting yield spike significantly. However for corporate securities, total maturing asset to be refinance will hit >IDR110tn. This may lead to widening of credit spread after narrowing since Covid-19 pandemic.

Insights Summary

Key Investment Themes

Entering 2023 also means embarking a political year. Historically, both stock and bond market recorded a positive returns during a political year. But we have to put the macro context. 2023 could be still challenging despite election budget hit an all-time-high as bleak economic outlook haunting. On the flip side, to foster sustainable growth, ESG implementation across the sectors have been taken seriously. Energy transition, industry downstreaming, transformation in transportation sector as well as sustainable financing will improve Indonesia's competitiveness albeit all the challenges that need to be addressed particularly for government.

Investment Strategy

Defensive strategy may deliver better risk adjusted return for 2023 since uncertainty risks remain linger. For money market, treasury asset looks more attractive in term of yield compared to TD rate. While on the government bond side, BI policy to engineer the yield curve signaling a transitory inflation would benefit a short duration fixed income portfolio. For equity, favor stocks which have : 1) sizeable profit & dividend; 2) ample cash flow; 3) low gearing; 4) cheap-to-rationale valuation and companies that are competitive in implementing ESG-practice. **Our top picks are : 1) AUTO; 2) BBNI; 3) BBRI; 4) EXCL; 5) ICBP; 6) KEEN; 7) MAPI; 8) SMGR.**

Global
Macro

The risk of global slowdown is inevitable

Consensus agree that 2023 global economy will face a challenging momentum. Growth prospect is impeded due to Russia-Ukraine war, rising inflationary pressure as well as restrictive monetary policy that cause borrowing cost to rise and global liquidity to tighten. **Bloomberg consensus expect world output to grow by +2.1% FY23F, or -80 bps lower than FY22E**. Both Advanced economies & emerging countries have contributed to the slump outlook. Here we highlight our takes from global economic outlook next year :

- Fed's aggressive rate hikes throughout 2022 coupled with increasing cost of living will cost economic activities to slowdown significantly. **US economy is foreseen to grow marginally at a pace of +0.4% in FY23F.**
- On the other hand, the ongoing geopolitical friction between Russia & Ukraine that trigger energy crisis to bring Euro Zone economy to fall into recession. **Euro Zone GDP is projected to contract -0.1% in FY23F.**
- Despite experiencing a rise in core inflation (+3.6% YoY in Nov-22), BoJ keeps its ultra-low interest rate and JPY still hovering around its lowest level against USD more than 2 decades. Sluggish trade activity will lead to **lower exports for Japan thus implying a lower growth activity at +1.3% in FY23F**.
- Constraints related to Zero Covid Policy and additional pressure on its property market are crucial theme for China's macro theme. PBoC reluctant to change its monetary stance to stimulate growth may come under pressure as global economy looks bleak, hence, in this scenario **China's GDP growth will be limited and expanding below its long-term historical average of >6% at +4.9% in FY23F.**

What people say on the global economy for FY23F

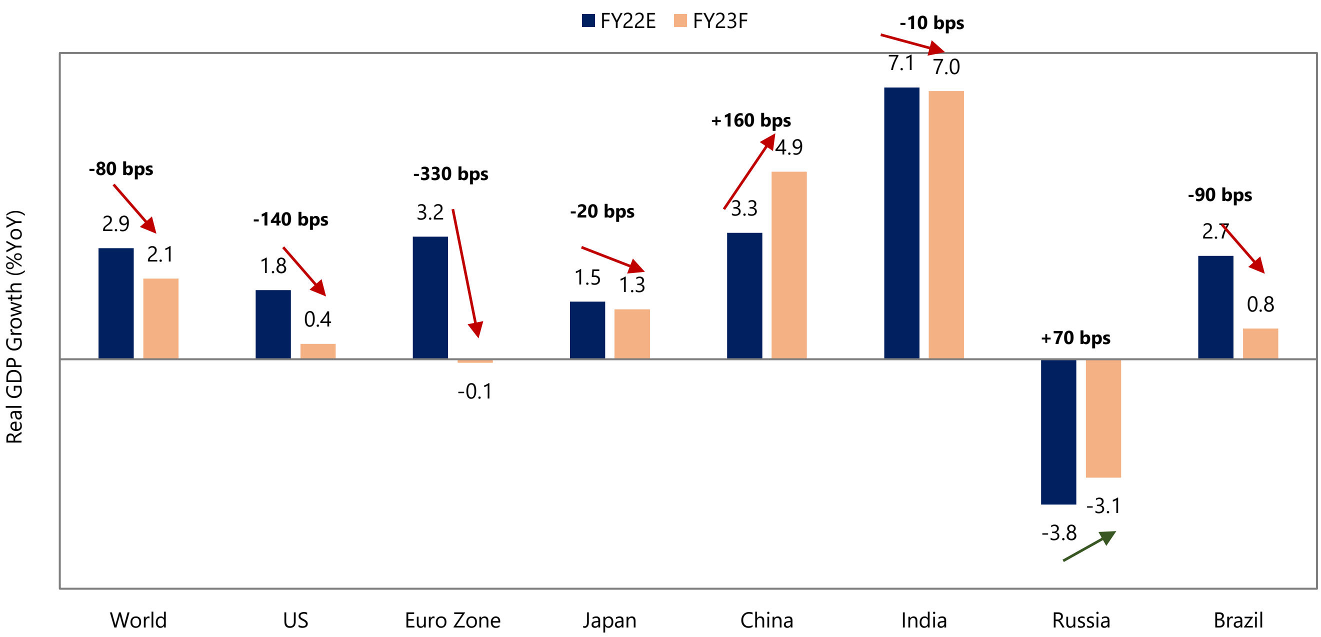
"We are experiencing a fundamental shift in the global economy, from a world of relative predictability … to a world with more fragility — greater uncertainty, higher economic volatility, geopolitical confrontations, and more frequent and devastating natural disasters,"

Managing Director of IMF Kristalina Georgieva citing on darkening outlook for FY23F

"Global growth is slowing sharply, with further slowing likely as more countries fall into recession. My deep concern is that these trends will persist, with long-lasting consequences that are devastating for people in emerging market and developing economies,"

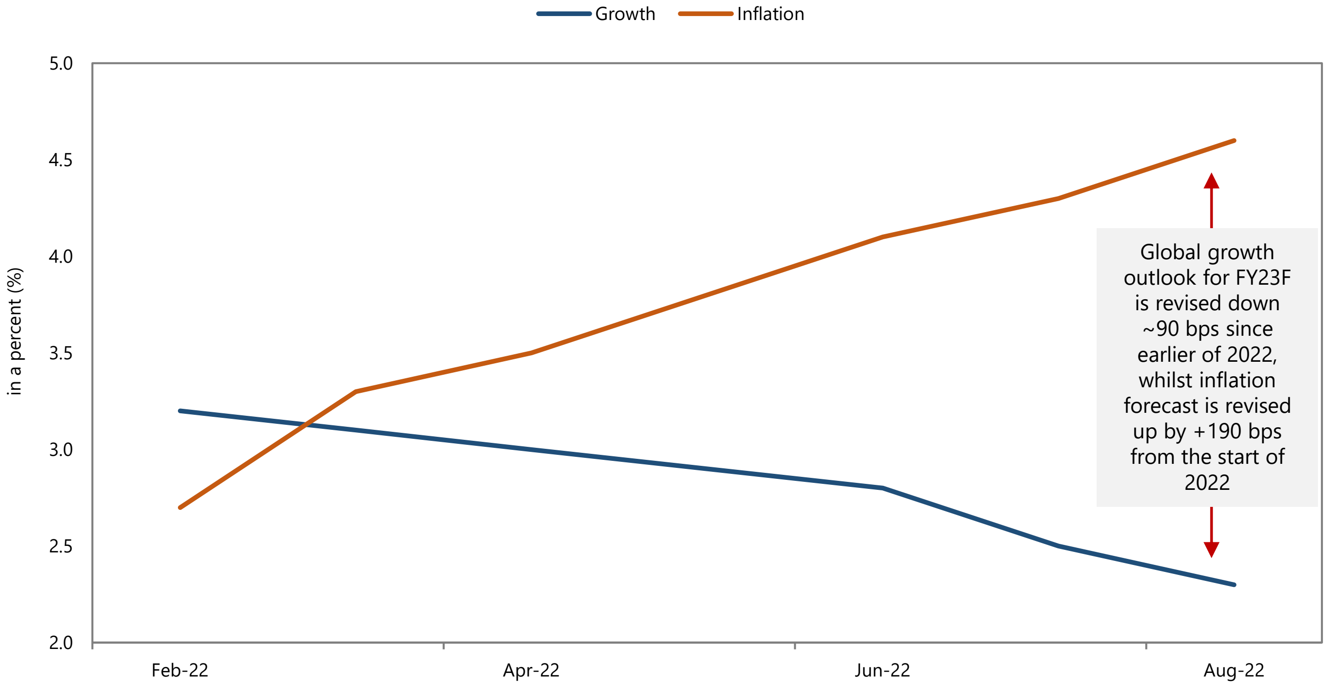
World Bank Group President David Malpass said on global recession in FY23F

Exhibit 1. Slower global growth prospect in FY23F is coming



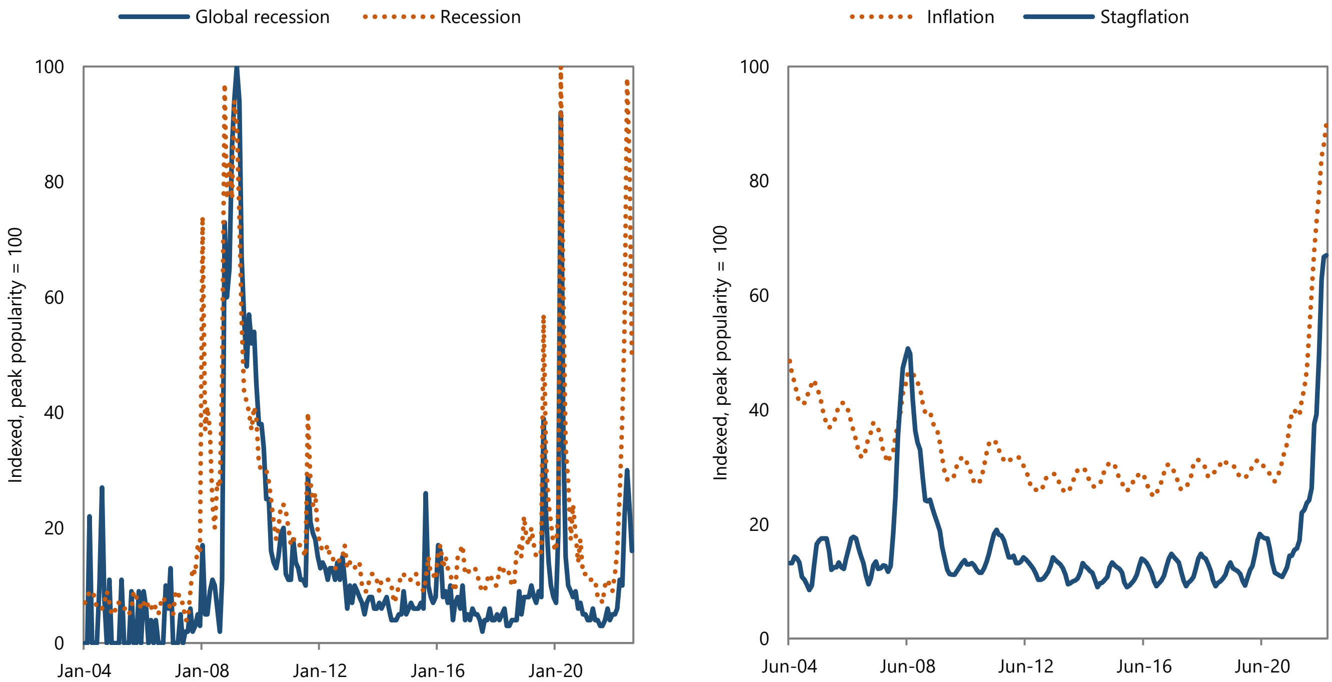
Sources : Bloomberg Consensus, MNCS Research

Exhibit 2. Global growth forecast is revised down while inflation is revised up



Sources : World Bank, MNCS Research

Exhibit 3. Web searches with keywords related to recessions and stagflation is hitting more than a decade high



Sources : World Bank, MNCS Research

US : restrictive policy and its cost

US disinflation has taken a place since 2H22. US CPI figure rose 7.1% YoY in Nov-22, the lowest rate since Jan-22. Indeed, US annual inflation rate has decelerated since Jul-22 after peaking at 9.1% YoY in Jun-22. However, Fed seems reluctant to pivot, despite sluggish growth outlook and recent disinflation as they outweigh on stability over growth. Fighting against inflation is still Fed's priority and signaling higher for longer environment in the near future.

Fed's aggressive tightening this year, indeed has some consequences for US economy as well as other countries. Some notable impacts are :

- Fed in total has raised +425 bps interest rate throughout 2022 and this doesn't calculate the implied rate hikes from B/S reduction since Sep-22. A sharp increase in FFR has resulted the USD index to increase by +8.70% and yield curve to invert. Historically, widening spread between short term rate (2-year UST yield) and longer term rate (10-year UST yield) has seen to be a leading indicator for US recession. With the yield curve inversion at the worst level more than two decades, Bloomberg consensus expect US probability of recession hitting more than 60%.

- Emerging market countries have suffered a massive portfolio outflows during aggressive tightening momentum this year. Despite majority of central banks try to catch up with the Fed, investors have withdrawn a record of USD70bn from emerging market bond funds up until 3Q22, this lead to a currency depreciation, even in commodity producing and exporting economies. Steep depreciation and high volatility of emerging market currencies have added pressures on central bank to hike its benchmark policy rate, on top of rising inflation.

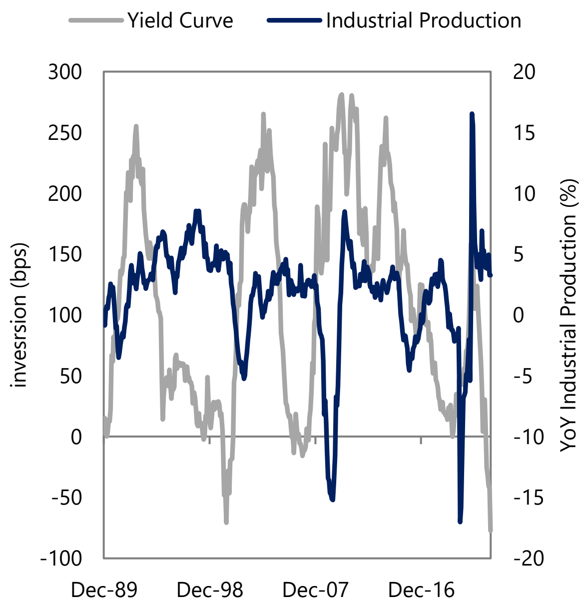
Restrictive monetary policy stance that will continue to 2023 hints a tighter global liquidity and can result to a financial stress as borrowing cost rising steeply. Based on FOMC summary of projection released in Dec-22, **US central bank to bring the terminal benchmark policy rate at 5.1% by FY23F, indicating +75 bps in total to FY23F, this is higher than market expectation that FFR to be at 4.75% by Dec-23F.** Fed continues to see inflation as a threat for the world largest economy. **US core PCE inflation was again revised up by +30 bp from Sep-22 projection to 4.8% FY22E and +40 bps to 3.5% FY23F indicating still above its target of 2%.** Hence, we believe Fed's monetary stance to have spillover impact to global economy and policymakers around the world to face a hard time to promote growth while keeping financial stability in check.

Exhibit 4. Fed sees higher inflation & rates

	FY22E	FY23F	FY24F	FY25F
Real GDP growth	0.5%	0.5%	1.6%	1.8%
Unemployment	3.7%	4.6%	4.6%	4.5%
PCE inflation	5.6%	3.1%	2.5%	2.1%
Core PCE inflation	4.8%	3.5%	2.5%	2.1%
Federal funds rate	4.4%	5.1%	4.1%	3.1%

Sources : FOMC projection Dec-22, MNCS Research

Exhibit 5. US yield curve inversion & recession



Sources : Bloomberg, MNCS Research

US monetary policy : 2 things to consider

(1) The implied actual policy rate should be higher due to B/S reduction. Fed's B/S has expanded to near USD9tn (>35% GDP) due to QE. Covid-19 pandemic forced US central banks to stimulate economy by activating very loose policy through cutting interest rate to ZLB and liquidity injection (mainly through US treasury securities & MBS purchase). However, with the economy facing an extreme tight labor market and high inflation, Fed began to raise its policy rate. In order to firming the stance of monetary policy, FOMC also began to unveil B/S reduction that later be named as quantitative tightening (QT) starting in Sep-22 with the value of USD95bn/month. Bear in mind, that this measure also cause liquidity to tighten on top of rate hikes, and thus, the impact needs to be calculated. Interestingly, a study estimated that for Fed to unwind a QT with passive roll of for 3 years totaling USD2.2tn in size, it would be equal to +29 bps FFR hike under normal condition and +74 bps under crisis, implying +6 bps and +9 bps increase in 10-year yield respectively.

(2) Is the Fed behind the curve ? Even with the uptick on inflationary pressures started in early 2021, Fed was reluctant to adjust their monetary stance and keeping their premise that inflation would be transitory. In contrast to Fed's view, consumer price continues to accelerate even with the pace hitting 4-decades high. This may depict a fact that Fed is indeed behind the curve considering the inflation figure. Based on Taylor-rule model, Fed needed to raise the interest rate in early 2021. Keeping interest rate at ZLB has proven to drag real rates into negative territory. However, Fed's policy forward guidance as well as additional restrictive policy coming from QT also need to be taken into account. Despite lagging Fed policy action, their forward guidance has resulted in an increase of future policy rate as 2-year UST yield & 30-year mortgage rate have increased substantially, meaning that Fed's guidance is already incorporated into current financial market pricing, even before policy actions are taken. This should also depict another fact that the Fed is not far behind the curve.

"We also decided to begin the process of reducing the size of our balance sheet, which will play an important role in firming the stance of monetary policy."

—Fed Chair Jerome Powell, May 4, 2022

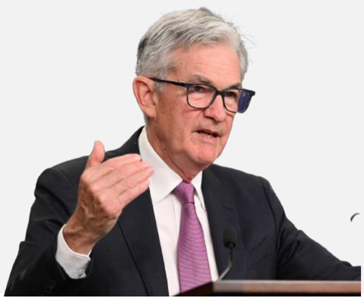
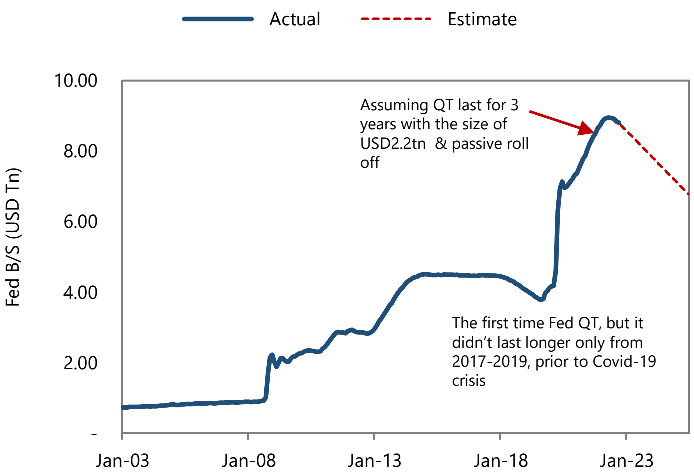
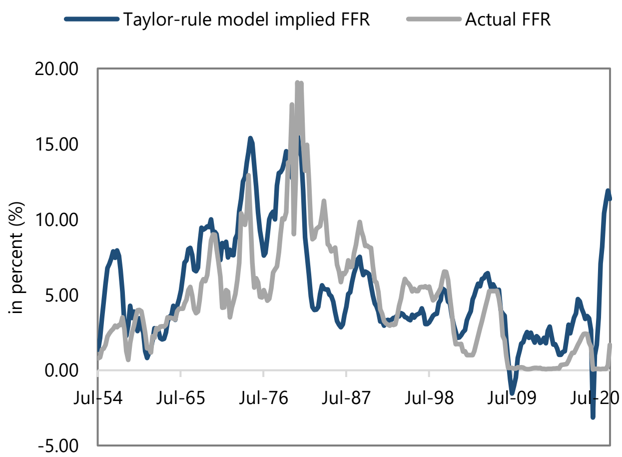


Exhibit 6. Fed B/S reduction to cause further liquidity tightening



Sources : Fed St Louis, Fed Richnond, Wei, Bin. (2022). "How Many Rate Hikes Does Quantitative Tightening Equal?". Federal Reserves Bank of Atlanta's Policy Hub, MNCS Research

Exhibit 7. Yes, Fed is behind the curve but not that far



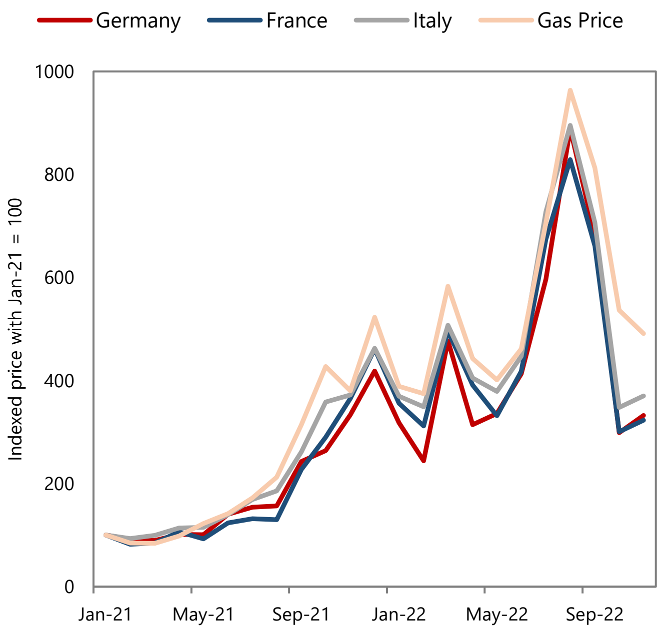
Sources : Fed St Louis, MNCS Research

A closer look at European energy crisis

Russia's invasion to Ukraine in Feb-22 has been blamed as the major contributor of rising consumer electricity prices across Europe as Russian Federation uses gas supplies as a weapon of war. The supply shortage causes gas price skyrocketing to USD35.72/mmbtu as of Nov-22, according to World Bank data. The gas price has risen +29.32% YoY and nearly 5.68x higher than its pre-pandemic average. **Although, it was already peak at USD70.04/mmbtu in Aug-22 and the gas price is expected to experience a slowdown, yet the figure is still far above pre-pandemic level with USD32.00/mmbtu in FY23F and USD28.00/mmbtu in FY24F based on World Bank CMO projection.**

Given the possibility of gas price to remain high in the coming months, and thus EU electricity price to stay above its normal level as it takes some time to replace Russia gas supplies. In addition, finding supplies from other countries also cause a higher replacement cost. On the other hand, despite, EU countries have adopted an emergency regulation to bring down energy prices (1 December 2022 – 31 March 2023), but we expect volatility to stay until the war resolve, which we believe will not come in the near future. **The ongoing energy crisis will likely to derail purchasing power and demand resulting to economic contraction.**

Exhibit 8. Slower global growth prospect in FY23F is coming



Sources : Statista, Eurostat, World Bank CMO, MNCS Research

Current condition on EU electricity prices

- Average monthly electricity wholesale prices in Germany hit EUR175.45/MWh in Nov-22 after peaking at EUR469.35/MWh in Aug-22.
- Average monthly electricity wholesale prices in France hit EUR192.16/MWh in Nov-22 after peaking at EUR492.99/MWh in Aug-22.
- Average monthly electricity wholesale prices in Italy hit EUR224.72/MWh in Nov-22 after peaking at EUR543.48/MWh in Aug-22.

How EU countries response to energy crisis?

1. **Reducing electricity use**
   - Voluntary measures to cut overall electricity use by 10% by end of Mar-23
   - Obligation for EU countries to reduce consumption by at least 5% during peak hours
   - Countries to choose their reduction measures

2. **Capping revenues of electricity producers**
   Some electricity producers that do not use gas with low operating costs using renewables, nuclear and lignite (coal) have had unexpectedly high financial gains, thus to promote energy equity, the revenue will be capped at EUR180/MWh

3. **Securing solidarity contribution from fossil fuel**
   As fossil fuel prices increase, some companies have generated additional profit. Revenue cap will be enacted to ensure fair share to provide relief to people and businesses struggling to pay energy bills. The contribution will come from companies which recorded an increase profit of more than 20% from its average of 4 years period

Sluggish external demand overshadowing Japan's export amidst weak JPY

The ultra-low policy rate has sent JPY to the lowest level in the last 2 decades. The JPY has traded down by -15.39% against USD throughout 2022, mainly driven by : 1) BoJ monetary stance against Fed and 2) rising consumer price. Japan's core inflation jumped +3.70% YoY in Nov-22, accelerating at the fastest pace since Dec-81. **BoJ stands pat on ultra-loose interest rate and arguing on weak consumer demand that will prompt inflation to fall back to 2%.** Furthermore BoJ also pledged hundreds billion of JPY to buy JGB in order to firming their pro-growth policy action. Yield on 10-year JGB has been stable at 0.25%.

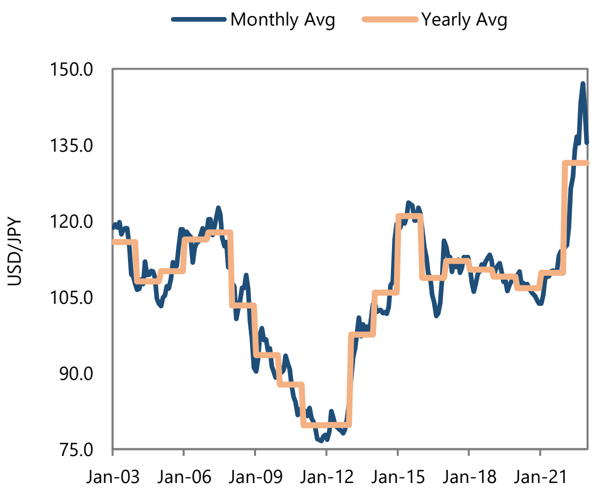
In spite of rising inflationary pressures and weak JPY, Japanese Prime Minister Fumio Kishida said that he will not urge Japan's central bank to adjust their stance. He said he would continue to work closely with BoJ to stimulate growth. Under Kishida's leadership Japanese government prepare a measures to raise wages, as he argued that in order to offset the negative impact of inflation on purchasing power, wage increase is needed.

In addition Kishida also aims to boost exports and promote tourism amidst plunging JPY. However, we believe this could be a challenging task as the global economy is facing a slowdown that will affect trade activity. During 11M22, Japan's trade balance recorded a cumulative deficit of JPY18,512bn. Imports surged outpacing exports on weaker JPY. **Potentially weaker external demand and JPY depreciation against USD that may continue overshadow Japan's economy and thus justifying -20 bps lower output growth at +1.30% in FY23F.**

"By passing on rising prices, we hope businesses will have some latitude to raise wages. In the past, wage hikes were viewed as a cost factor, but going forward, companies need to invest in people for the economy and for businesses themselves to grow."

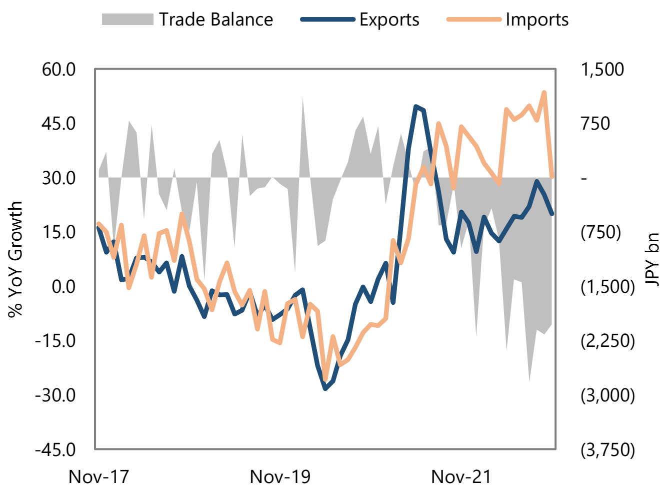
—Japanese Prime Minister Fumio Kishida

Exhibit 9. JPY plunged >15% throughout 2022



Sources : Bloomberg, MNCS Research

Exhibit 10. Japan's trade balance deficit widen as imports surge



Sources : Bloomberg, MNCS Research

China : double hit by Zero Covid Policy & property sector indebtedness

Zero Covid Policy and weak property sector are the cause of China's economic malaise. After struck by protesters, Chinese government took off some easing measures. Yet, the unplanned exit strategy seems to cause case transmission surge. Domestic consumption would be the key for China's economy as weak external demand may limit trade as the China's main economic engine. We believe consumption to remain sensitive to Covid cases development. Uncertainty lingering on containment measures will add another pressure on domestic demand and hence, we think it is too early to conclude China's Zero Covid Policy lift off will significantly prop up consumption despite still manageable inflation. Note that China's annual inflation rate increased +1.60% YoY in Nov-22. The pace of consumer price increase has decelerated from +2.1% YoY in Oct-22 and +2.8% YoY in Sep-22.

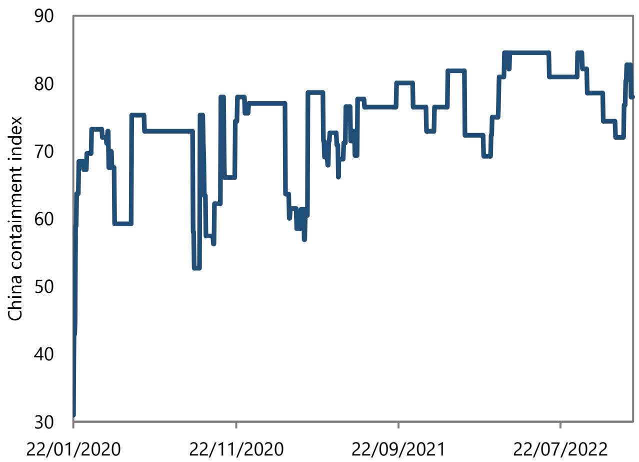
Inflation figure has favored policymakers to promote property sectors by lowering interest rate. PBoC allowed some cities to cut mortgage rate in a bid to revive hit hard property market. In Aug-22 PBoC cut its 5-year loan prime rate- a reference for mortgage by -15 bps to 4.30% from 4.45%. Chinese central government also released 3 detailed policy including : 1) featured loan extensions; 2) bond financing and 3) resumptions of mergers and acquisitions by real estate developers.

In spite of those measures to promote growth, **clarity and consistency around strict Covid policy relax and the success to revive property sector that account at least 25% of total output will play a key role to safeguard the second largest economy surviving global headwinds.** All in all, **China's GDP is expected to grow +4.9% in FY23F**, but **still lower than its historical average of >6%.**

"China's housing sector is linked to a lot of upstream and downstream industries. Therefore, its healthy development is of great significance to the overall economy"

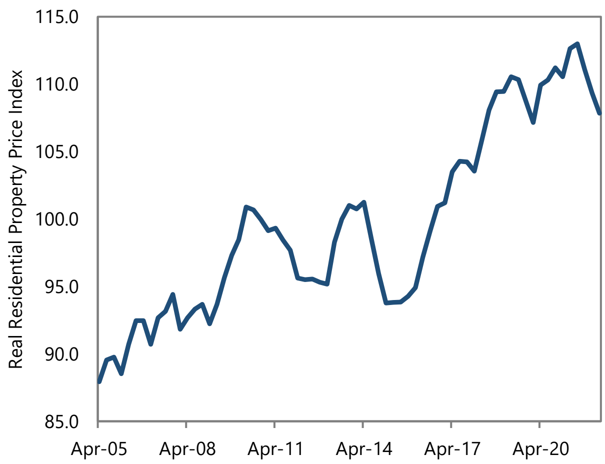
—PBoC Governor Yi Gang

Exhibit 11. China's Covid stringency index



Sources : Our World in Data, MNCS Research

Exhibit 12. China's residential property price



Sources : Fed St Louis, MNCS Research

Pursuing a healthier budget through fiscal consolidation

Ensuring a healthy fiscal balance will be Indonesia's government top priority next year. Unlike in FY20-FY22E, whereas budget ceiling at 3% was relaxed to stimulate economy, government has set the course of fiscal consolidation. **Aiming to bring fiscal balance at -2.84% GDP FY23F, government will mainly focus on revenue side through tax extensification.**

Some notable policy to collect and optimize revenue including rising tobacco excise tax by +10%, furthermore, government also plans to implement carbon tax. **However, metal and mineral mining as well as palm oil prices moderation due to weak external demand could pose a downside risk.**

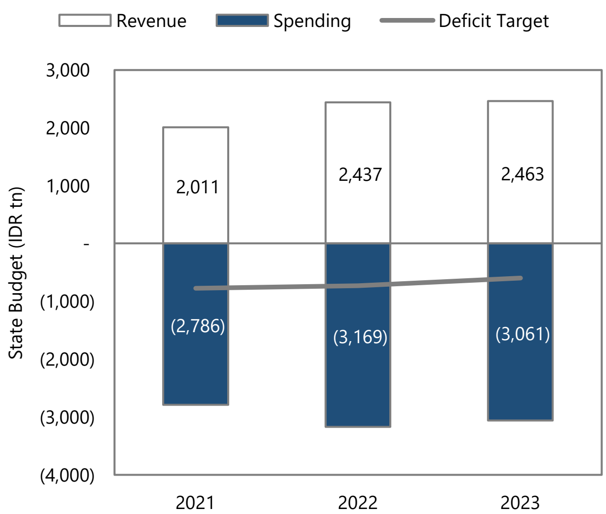
In addition, budget deficit will also depend on the cost side particularly for subsidies. **Lower than expected oil price (ICP APBN 2023 : USD90/bbl) could help offset possibly lower revenue**. However, consensus forecasts **Brent crude price will stay at USD90-100/bbl for FY23F** reflecting supply-demand constraint lingering on Russia-Ukraine war as well as OPEC+ policy.

Despite all the challenges faced by government, we still believe fiscal consolidation could be achieved. **We project fiscal balance will be at least at -2.9% GDP for FY23F. All in all, budget flexibility, reallocation and refocusing may still be the key theme during uncertain times like in 2023.**

"APBN 2023 is designed with a deficit of 2.84 percent of GDP which reflects credible, prudent and timely steps to improve state finances and fiscal consolidation."

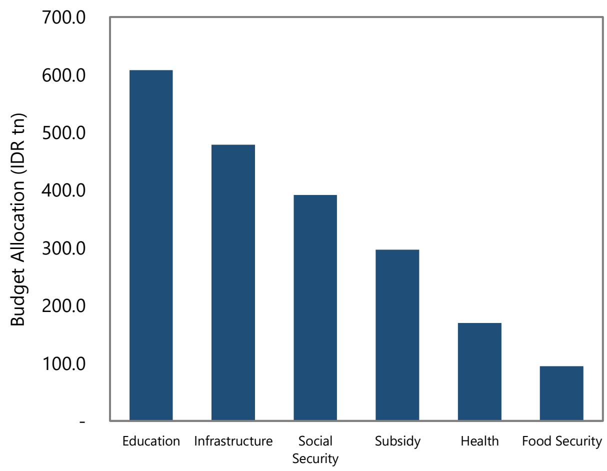
—Indonesia's MoF Sri Mulyani

Exhibit 13. Government target lower budget deficit next year



Sources : MoF, MNCS Research

Exhibit 14. Subsidies & social security account for ~3% GDP



Sources : MoF, MNCS Research

More rate hikes to contain IDR depreciation & inflation

Even after raising in total +200 bps of 7-day reverse repo rate to 5.50%, IDR depreciation is unavoidable. The IDR has traded down by nearly -10% against USD throughout this year. BI has come behind Fed in terms of rate hikes. The interest rate differential has narrowed to 100 bps, lower than historical level at ~250-300 bps. This partly translates to domestic currency underperformance relative to greenback, along with other emerging market currencies.

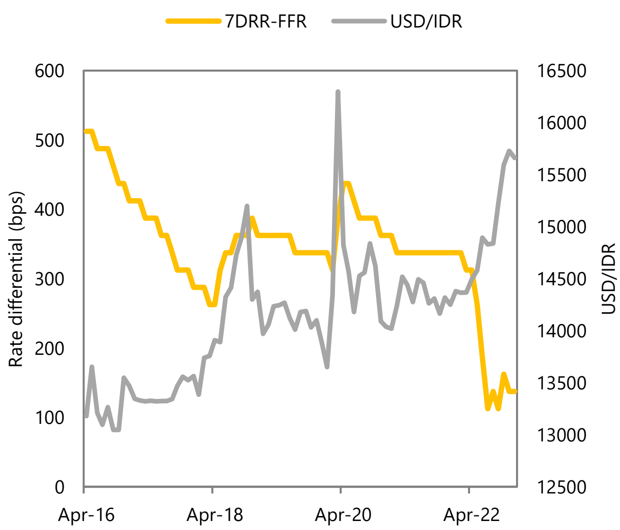
Notwithstanding that Indonesia has seen a disinflation recently, further rate hikes are still needed, in our view. Raising benchmark policy rate is necessary to safeguard interest rate parity and echoing a policy to anchor inflation given broad money supply is aplenty and adequate banking liquidity. **We believe Bank Indonesia still have room to raise another +50 bps in FY23F to firming the stance of its monetary policy.**

However, the IDR outlook will not only depend on interest rate. FX liquidity condition, indeed matters. Slowing commodity prices is likely to moderate exports performance. Whist for trade surplus to continue quite sometimes, this does not always mean Indonesia is always flooded with FX liquidity. Enforcing FX receipts from exports regulation will play an essential role, given FX reserves/imports ratio has been declining. In addition, pressures on domestic currency may also come from tightening FX liquidity in the banking system as credit expands quickly outpacing customer deposits. As of Apr-22 FX LDR has jumped to a near 90% and hence **there should be policy to favor capital inflows and again this also justify another rate hikes are needed. We foresee IDR to be traded at 15,125-16,050/USD for FY23F.**

"We will continue to intervene to stabilize the rupiah exchange rate. Ensure that the rupiah exchange rate is stable, supports economic recovery, controls inflation and maintains purchasing power"

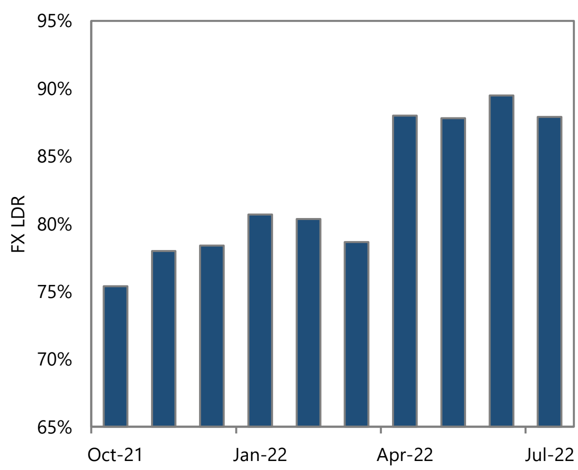
—Bank Indonesia's Governor Perry Warjiyo

Exhibit 15. Narrowed IR differential and IDR depreciation



Sources : Bloomberg, MNCS Research

Exhibit 16. Lower FX liquidity in the banking system



Sources : OJK, MNCS Research

Domestic Macro

Global 'decoupling' also provides opportunity for Indonesia

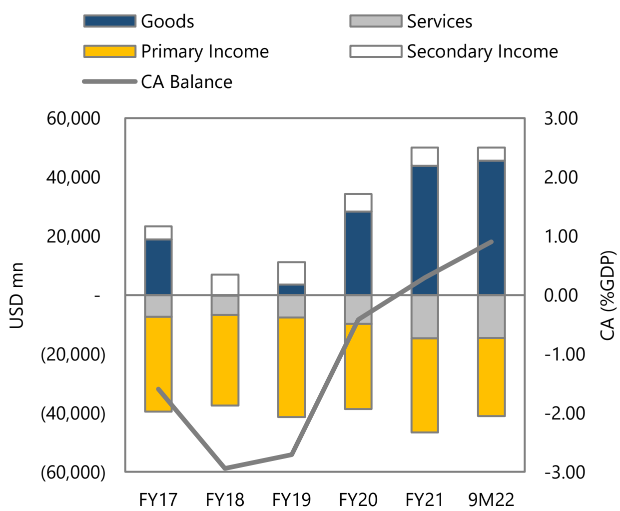
We have experienced a world decoupling phenomenon since US-China trade war back in 2018, and now, Russia-Ukraine geopolitical tension also escalate global economic uncertainty. **Risks remain tilted to the downsides as conflict will only limit trade activity and investment flows on top of financial market volatility.** Besides that, war has proven to spur commodity prices particularly foods and energy through supply shortage channel. Global hegemon suffers due to rising input cost that translates into multi-decades high inflation rate. This in turn favoring commodity producing and exporting countries like Indonesia. After experiencing a prolonged CA deficit due to chronic low commodity prices, 30 straight months trade surplus has helped CA to record a surplus (+1.1% GDP as of 3Q22). On the other hand, Indonesia also benefits from FDI inflows throughout 2022 amounting to USD33.5bn in 9M22. This record high FDI has reversed the stagnated trend since FY14-FY21 which only grew +1.4% annually.

Looking forward, we expect **geopolitical risks will not be resolved any time soon forcing investors to relocate and building a more resilient value chain providing opportunity for other countries outside China.** Hence**, increasing competitiveness is essential to catapult FDI inflows** as Indonesia still needs long-term external financing**.** Since President Joko Widodo took office, policy reform to attract investment has been government's top priority. UU Cipta Kerja (Omnibus Law) became a milestone of bold reform. **Through bureaucratic reform, tax incentives, SEZ, land reallocation, as well as downstream industry, Indonesia is better positioned right now to attract foreign investment.** This policy reform will strengthen Indonesia's position globally besides macroeconomic & political stability.

"We have gained the trust, now, it depends on how we implement the policies that have been taken. The trust we have earned should not be lost because we mistreat the investments that come into in our country, this is due to the intense investment competition"

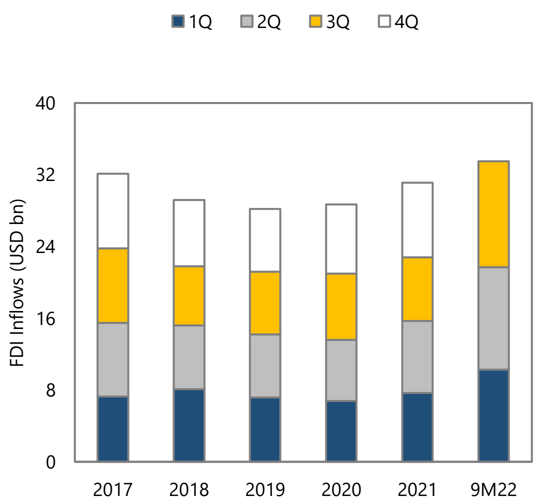
—President Indonesia Joko Widodo

Exhibit 17. Commodity prices help CA to record a surplus



Sources : Bank Indonesia, MNCS Research

Exhibit 18. 9M22 FDI realization has surprassed FY21



Sources : BKPM, MNCS Research

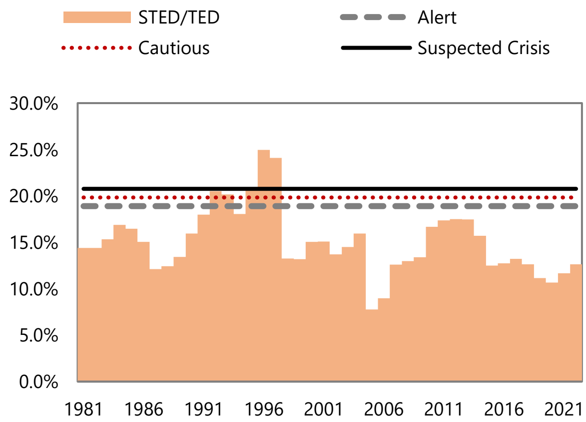
Domestic Macro

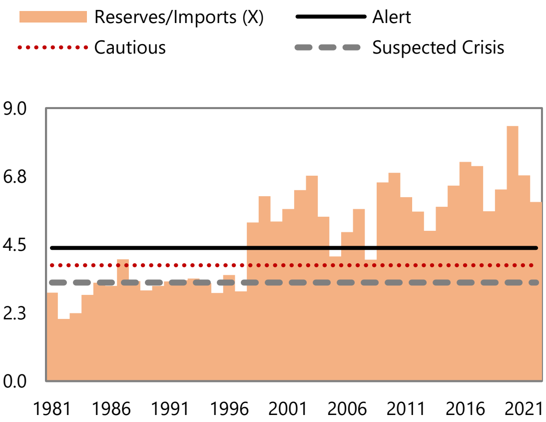
Indonesia looks less vulnerable now

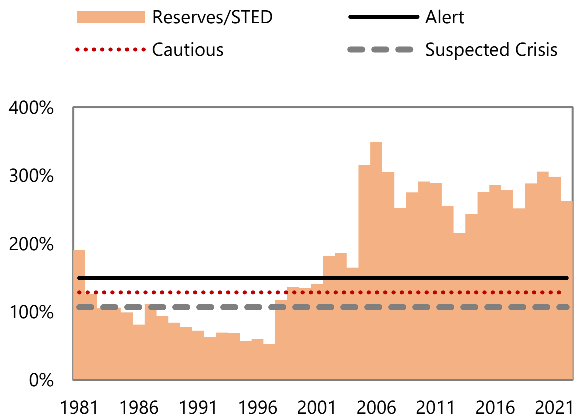
Rising indebtedness due to Covid-19 is the major problem now as borrowing cost increases sharply. Countries with high exposure to USD denominated debt will suffer the most. But this case is not for Indonesia. **Structurally, Indonesia is better positioned with lower external debt.** As at the end of 3Q22, Indonesia's external debt position accounted for 30.1% GDP, improving from 31.8% in 2Q22. Indonesia's external debt is maintained healthy with short term to total external debt position at 12.6%. This was far lower than suspected crisis threshold at 20.8%. Even compared to previous cycle, particularly during taper tantrum 2013, Indonesia has lower short term external debt ratio.

Furthermore, reserves to shot-term external debt ratio was around 262% or equivalent to 2.45x from crisis threshold. Another indicator also shows that Indonesia is in a better shape now compared to 1997 Asian Financial Crisis & 2008 GFC. Despite the trend is declining, reserves to import ratio is well maintained above international standard at 3 months coverage. **All in all, we see Indonesia is likely to be less vulnerable to external shock, given the sound structure of external debt.**

Exhibit 19. Indonesia is less vulnerable







Sources : Bank Indonesia, MNCS Research

Changing landscape during the battle of bull and bear

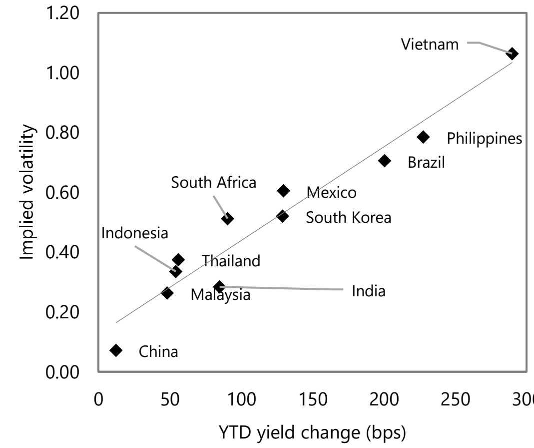
Domestic financial markets were more resilient. Indonesia's equity market outperforms other EM countries with JCI posted +4.9% YTD return. Interestingly, domestic stock market is also less volatile compared to peers meaning that Indonesia offers better risk adjusted return. In the government bond market, the 10-year benchmark yield change is also manageable. Besides that, yield volatility is considerably low.

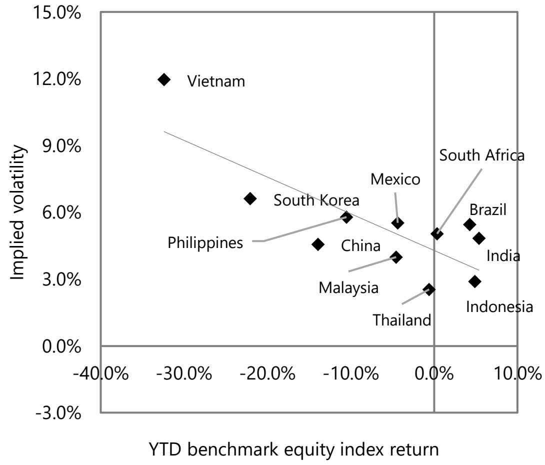
Yet, stock outperforms bond. Domestic equity market proxied by JCI has returned +4.9% YTD (as of 28 Dec), outperforming both government bond & corporate bond which fell -3.6% & -1.6% respectively. Albeit, having lower risk, government bond underperformance is underpinned by a supply side risk as government maintains its accommodative fiscal policy. Meanwhile, at the same time market is also poised by Indonesia's growth prospect and compelling earnings narrative. Note that companies under our universe reported an increase in revenue and earnings of +23% and +53% respectively on a year on year basis during 9M22.

And the trend seems to revert. Equity market outperformance is also driven by foreign fund flows (+IDR45.61tn YTD to equity), making stock valuation is quite premium relative to risk free rate (JCI earning yield at ~6.8% when it hit ATH at 7,314; 10-year Indo GB yield at 7.12%). Since Dec-22, foreign investors net sell equity and net buy government bond. The trend reversal indicate that investors start to see opportunity in the government bond market for offering higher yield and lower risk at the same time. This, in turn pull back the 10-year Indo GB yield to fall below 7% and triggering JCI de-rating by pushing up earning yield to ~7.30%. At this moment, domestic asset valuation looks healthier and more rationale.

Interestingly, domestic investors rule in. Indeed, domestic stock market has been flooded by foreign funds throughout this year. The heavy dependency on commodity exports particularly energy combined with promising banking industry characterized by : 1) high NIM; 2) strong capital and 3) large unbanked population have positioned Indonesia as place to diversify. Despite the fact that massive foreign inflows come to Indonesia, domestic investors particularly retail rules in. As at the end of Nov-22, retail stock ownership has accounted ~30% across sectors, in contrast to Dec-19 that only account for ~26%. On the other hand, this phenomenon also occur in the government bond market. As foreign investors net sold, domestic investors step in as a net buyer. Low interest rate environment combined with aplenty liquidity in the banking system have forced long term investors such as pension fund and insurance are pouring their money to bond market in search of better yield and risk-return strategy. All in all, the changing landscape of financial asset class holders will likely to help domestic market to be more resilient going forward and this also reflect a financial market deepening.

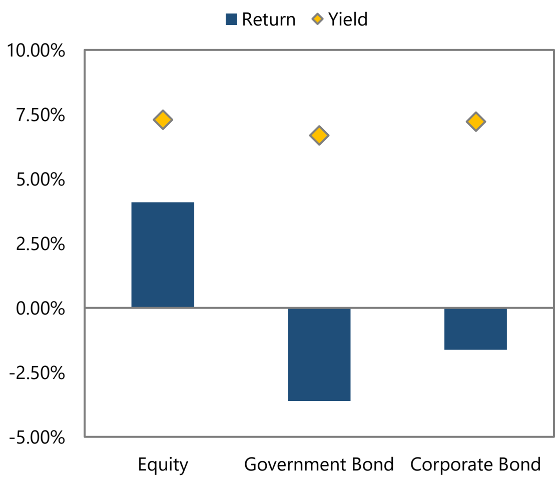
Exhibit 20. A more resilient domestic financial markets





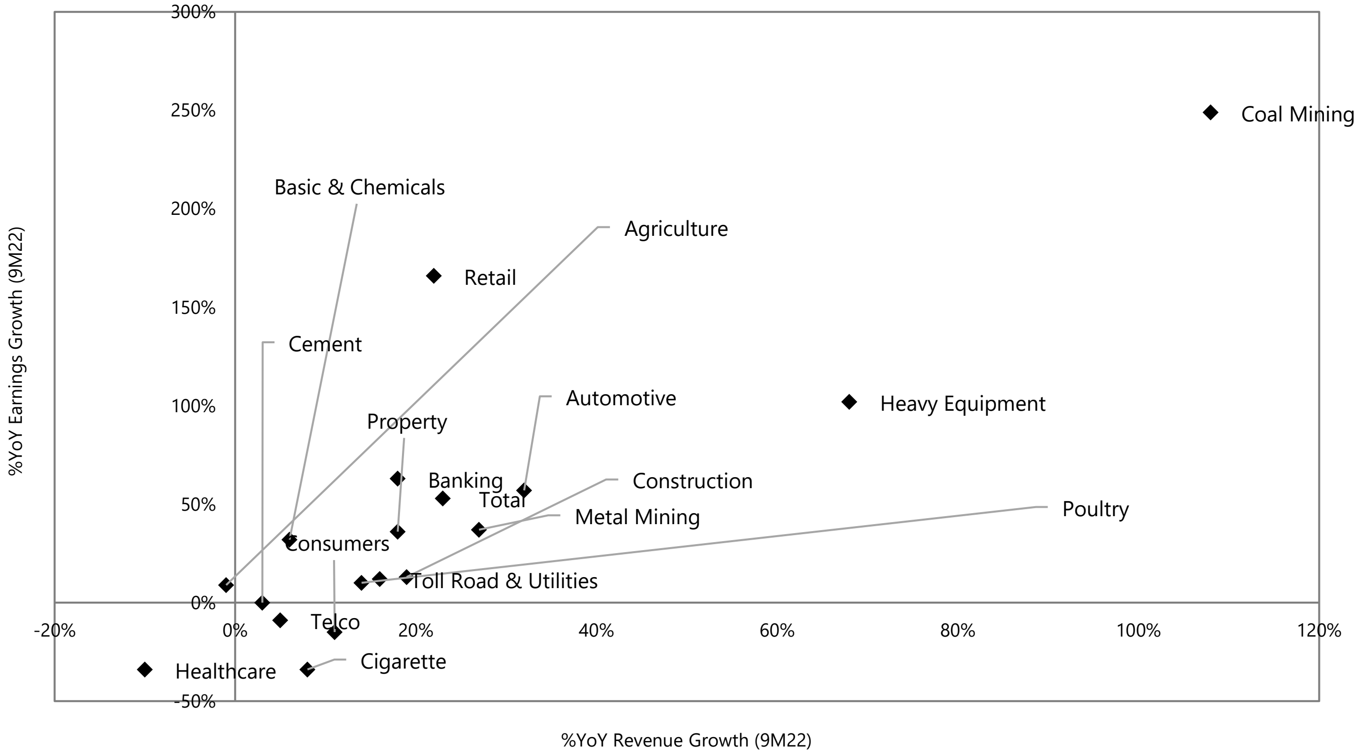
Sources : Bloomberg, MNCS Research

Exhibit 21. Equity outperforms bond



Sources : Bloomberg, IBPA, MNCS Research

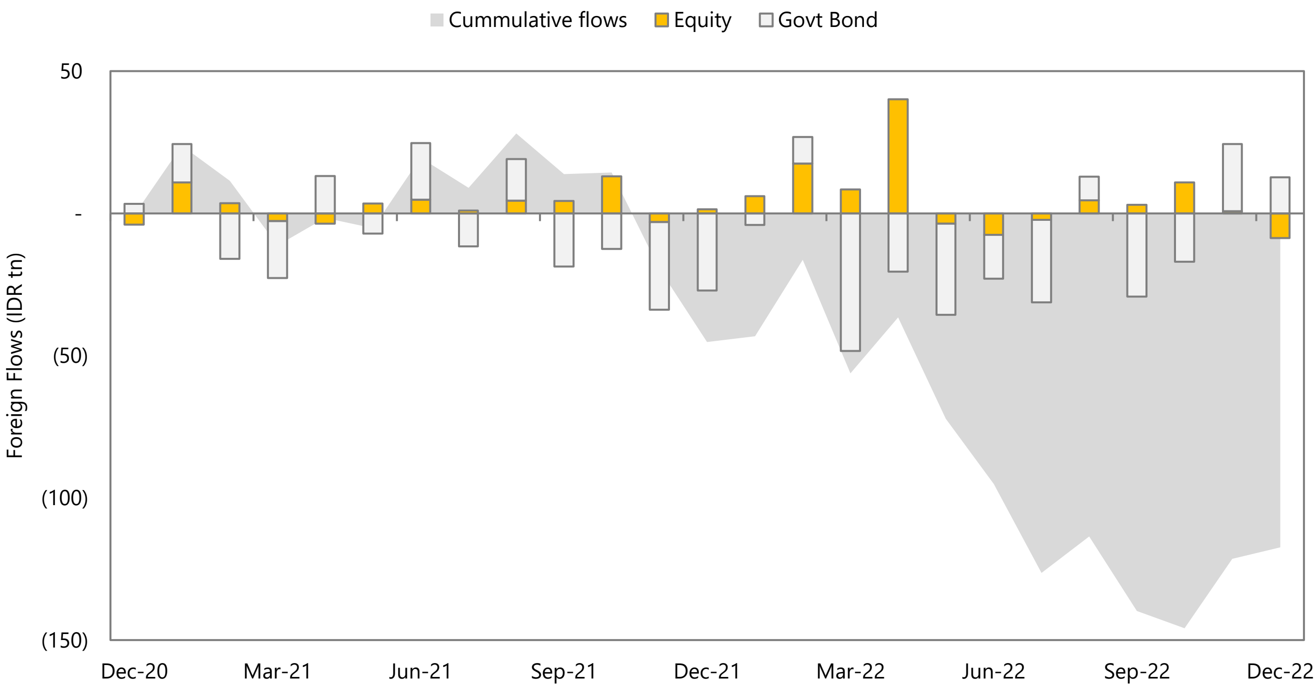
Exhibit 22. Earnings look compelling during 9M22



Sectors (IDR bn)	Revenue			Earnings		
	9M21	9M22	YoY	9M21	9M22	YoY
Automotive	178,443	234,850	32%	16,831	26,411	57%
Banking	300,304	353,604	18%	69,211	112,652	63%
Telco	136,472	142,868	5%	23,549	21,344	-9%
Toll Road & Utilities	44,953	51,939	16%	5,107	5,735	12%
Consumers	148,236	163,884	11%	15,624	13,286	-15%
Healthcare	15,178	13,595	-10%	2,188	1,439	-34%
Retail	49,840	60,948	22%	1,062	2,827	166%
Construction	39,785	47,365	19%	576	651	13%
Property	20,701	24,336	18%	3,473	4,712	36%
Agriculture	26,406	26,148	-1%	2,637	2,873	9%
Coal Mining	77,428	160,989	108%	15,060	52,608	249%
Metal Mining	10,451	13,303	27%	1,872	2,564	37%
Poultry	70,396	80,232	14%	4,183	4,614	10%
Cigarette	164,590	177,317	8%	9,689	6,400	-34%
Cement	35,939	36,942	3%	2,596	2,597	0%
Basic & Chemicals	1,885	2,003	6%	347	458	32%
Heavy Equipment	75,072	126,115	68%	8,614	17,431	102%
Total	1,396,079	1,716,438	23%	182,619	278,602	53%

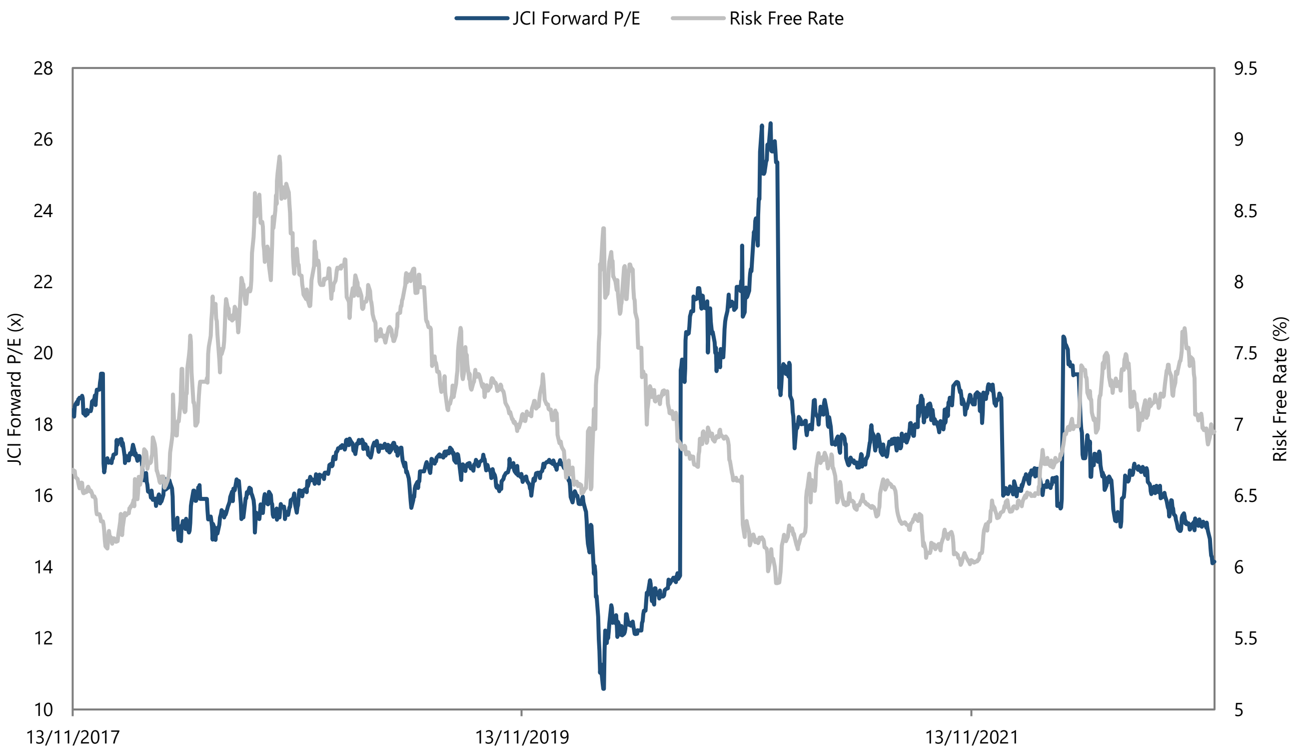
Sources : Bloomberg, MNCS Research; using 9M22 data of companies under MNCS universe

Exhibit 23. Flows reversal; foreign net sell equity & net bought government bond in Dec-22



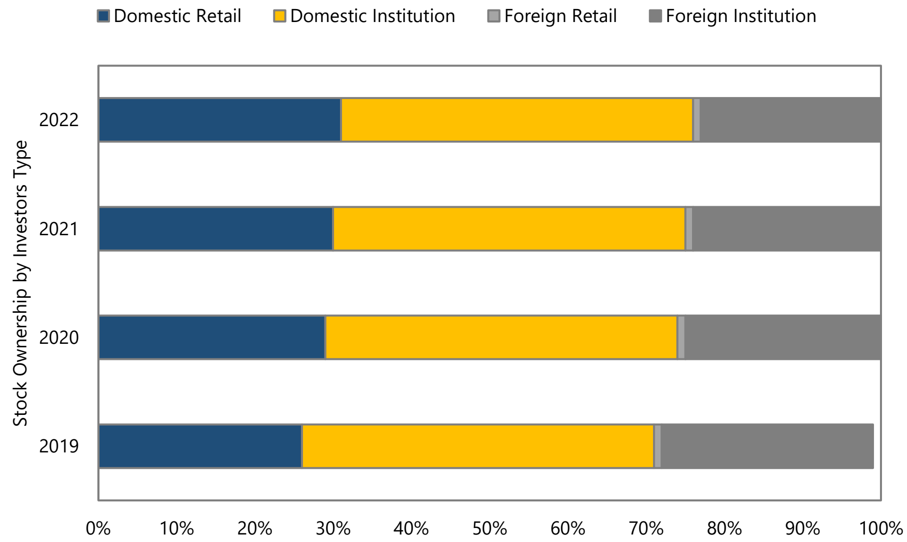
Sources : IDX, DJPPR, MNCS Research

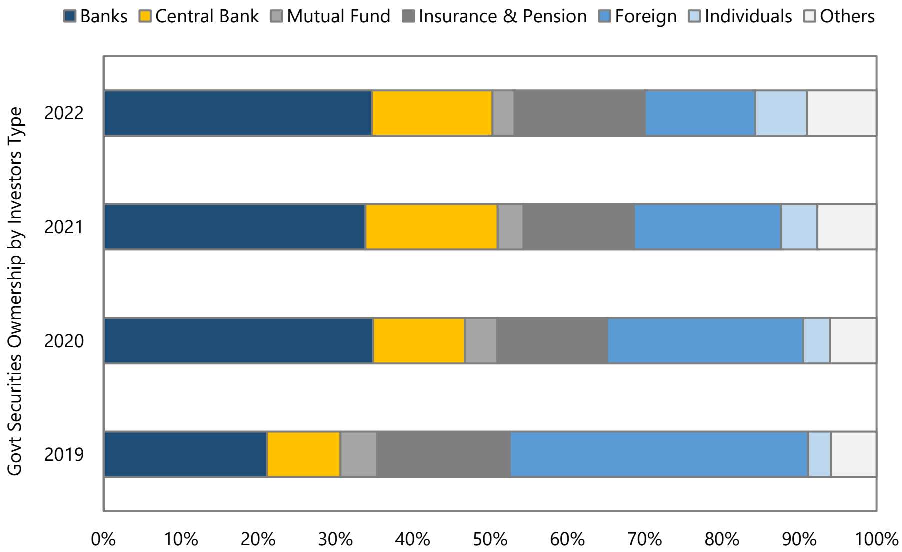
Exhibit 24. Domestic asset class valuation looks more rationale now



Sources : Bloomberg, MNCS Research

Exhibit 25. as domestic investors dominate, market is expected to be more resilient





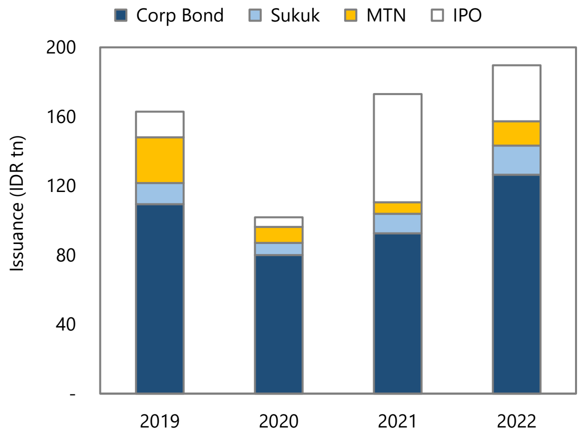
Sources : KSEI, DJPPR, MNCS Research; 2022 as of November

The saga of funding

Vibrant corporate funding activities. As the economy continuously showing to recover, corporate funding activities increase. The amount of equity financing totaled IDR32,304bn (from IPO), while debt financing (bond, sukuk & MTN issuance) amounted to IDR157,338bn during 11M22. Cumulatively, fund raised from bond & equity issuance hit IDR189,642bn. The figure has outpaced the total amount in FY21 of IDR173,055bn. Also total fund raised during 11M22 was +86% higher than during pandemic (FY20). The increase in corporate debt issuance was driven by refinancing needs as well as working capital and investment needs. Corporates tend to harness low interest rate to secure financing. Meanwhile for equity financing was lower since there were 2 jumbo IPO in FY21 from BUKA & MTEL. Overall, increasing funding activities show that domestic market is doing well, even with challenging macro backdrop and negative external sentiment.

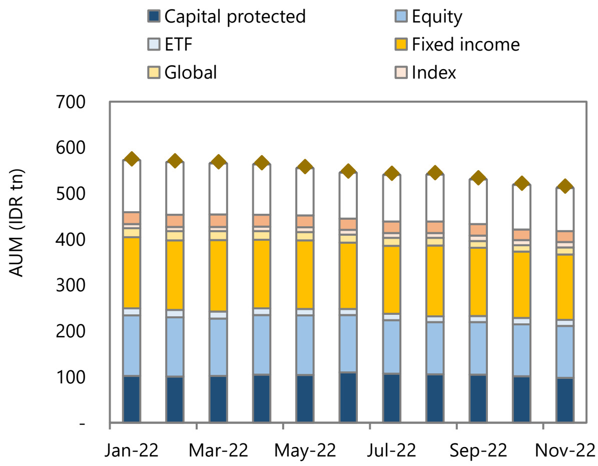
However, one of the funder is not doing well. Mutual fund AUM has decreased substantially throughout 2022. As at the end of Nov-22, total AUM was recorded at IDR515.5tn. It was significantly lower than in Jan-22 when AUM was still IDR574.6tn. Lower AUM was seen across the board. Equity, fixed income & money market fund have declined by IDR49.3tn. The share was eroded by -160 bps from the start of the year. The drop in mutual fund AUM is also associated with OJK's new regulation which limit fund managers in managing invested insurance product (Paydi). According to the rules, Paydi can only be placed in mutual fund with 100% underlying of government bonds or securities issued by central bank.

Exhibit 26. Equity & debt financing jumped



Sources : IDX, MNCS Research

Exhibit 27. Mutual fund AUM decreased



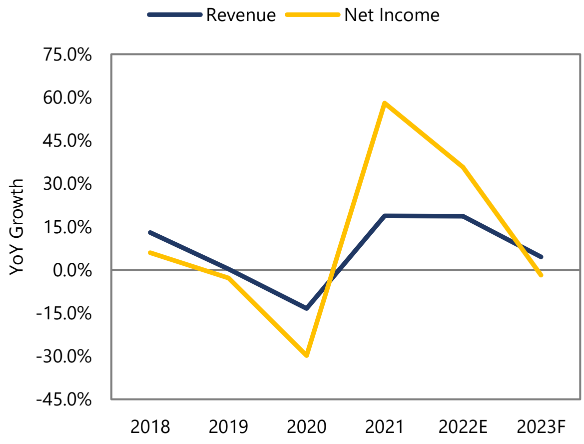
Sources : OJK, MNCS Research

Equity : still challenging but sound

What investors need to look up to in 2023 : 1) growth; 2) margin & earnings; 3) liquidity; 4) leverage; and 5) valuation.

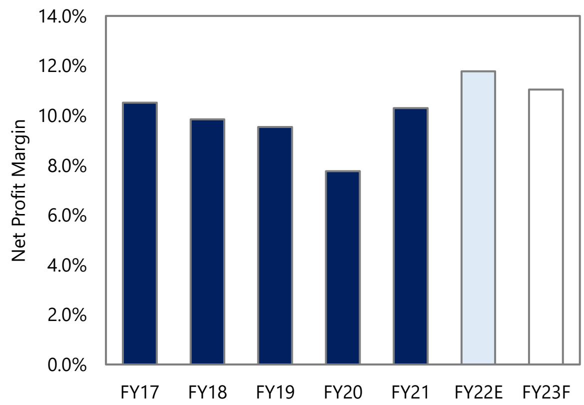
- **Growth :** top line growth is expected to be moderated given the high base in FY22E. Slowing commodity prices could affect Indonesia on a macro and also micro level. We foresee, revenue of companies under our coverage to grow a single digit next year (Bloomberg consensus forecast at +4.6% YoY).
- **Margin & earnings :** margin squeeze is likely to occur on the back of rising input cost. Further IDR depreciation as CA surplus narrow or either reversing to deficit could result to FX loss for companies that are import dependent or having FX denominated debt. Worst case scenario of NPM for non-bank companies under our universe to -70 bps lower than in FY22E. However, banking industry particularly big banks may help earnings outlook as liquidity to stay adequate and thus NIM deterioration could be contained. Worst case scenario earnings to contract by -2%; base to grow +8% whilst best jumping +12%.
- **Liquidity :** we foresee companies under our coverage to be more conservative on capex and this resulting to FCF build up. Expect for possible slowing expansion but this strategy is needed to maintain healthy balance sheet during tight liquidity.
- **Leverage** : interesting facts, companies under our coverage have seen to deleverage. For those who have stable healthy leverage to be more resilient amidst rising borrowing cost.
- **Valuation :** all in all, we expect challenging macro outlook may also be taken into account to equity asset pricing. **Our view, JCI could be traded at 13-15x FY23F P/E, and thus implying our bear/base/bull target at 6,615/7,425/7,818 next year.**

Exhibit 28. Expect revenue & earnings moderation



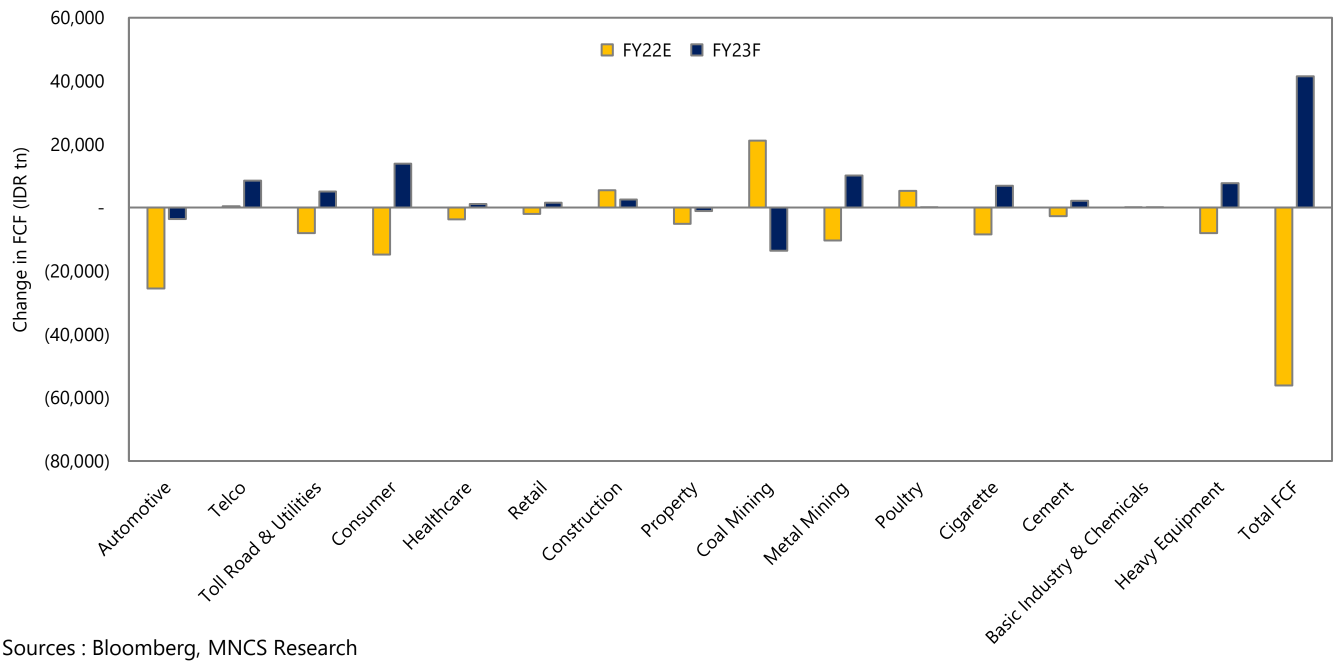
Sources : Bloomberg, MNCS Research

Exhibit 29. Watchout of possible margin squeeze



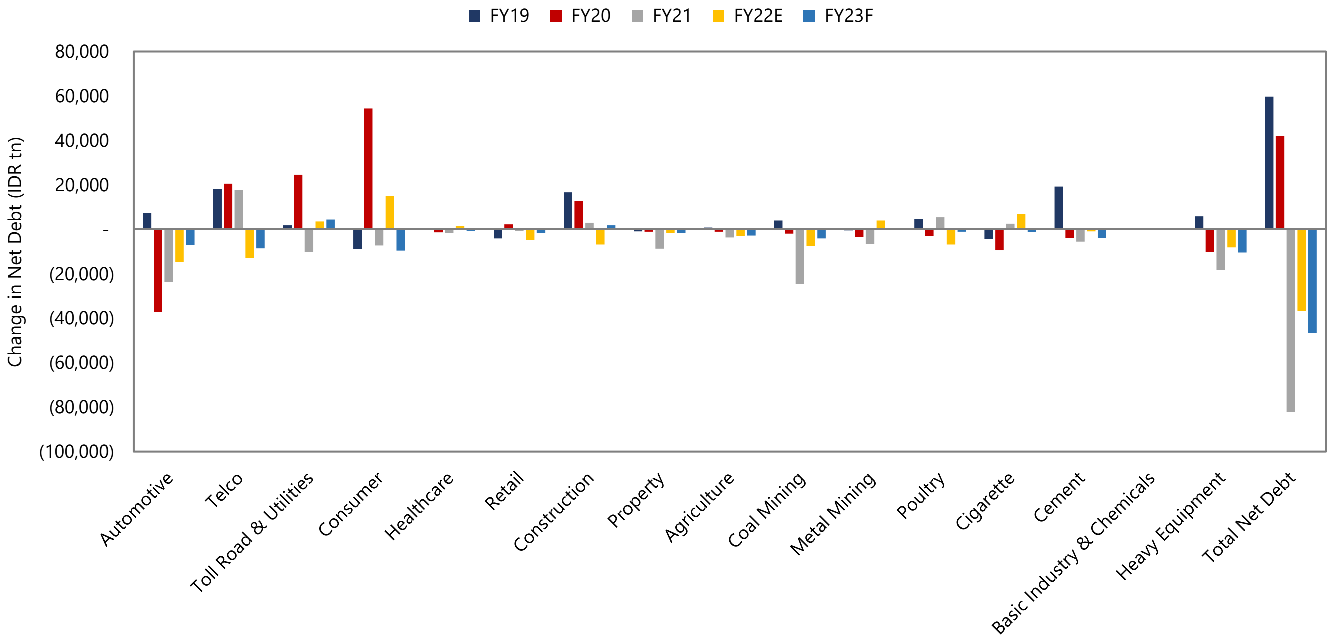
Sources : Bloomberg, MNCS Research

Exhibit 30. Expect companies to be more conservative on capex and accumulating FCF amidst high interest rate environment



Sources : Bloomberg, MNCS Research

Exhibit 31. Deleveraging could help mitigate risk from rising borrowing cost



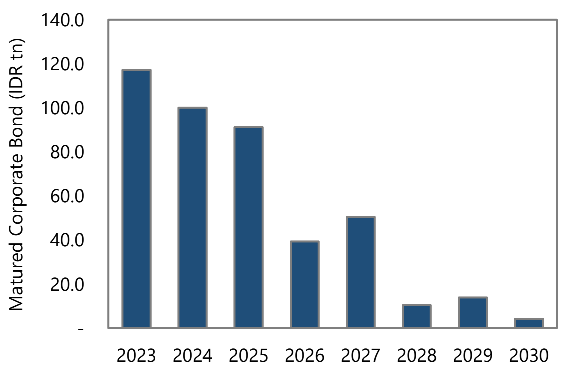
Sources : Bloomberg, MNCS Research

Bond : focus on supply side risk

As we enter a high interest rate environment and possibly tighter for longer era, investors need to focus on B/S strength and supply side risk. But here we emphasize more on supply side risk as B/S capacity to absorb shock could be built on how companies strategizing their capex, liquidity and dividend payment.

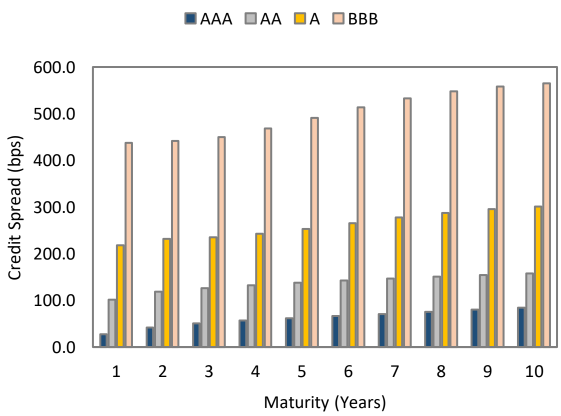
- **Government bond** : ensuring smooth fiscal consolidation would be the key. Despite there will be no more burden sharing, however government plans to utilize SAL by IDR70tn next year. Prudent fiscal management & strong coordination between government & central bank to ensure investment grade reaffirmation would limit spike in cost of financing that could be transmitted to higher yield. Lower budget deficit mean lower target and size per auction thus limiting supply side risk. However, macro-policy coordination to attract foreign capital is still needed. **We foresee the 10-year Indo GB yield bear/base/bull scenario at 7.96%/7.36%/7.00% for FY23F.**
- **Corporate bond :** corporates will face higher financing cost as their debt securities maturing next year will hit >IDR110tn. Such condition may reverse trend we see throughout 2022. Credit spread matrix may widen than. Furthermore, corporations still need to compete with government to access funding particularly from bank as mutual fund AUM declining and could be more sector and rating selective.

Exhibit 32. Corp bonds maturing next year hitting high



Sources : KSEI, MNCS Research

Exhibit 33. Possible widening credit spread matrix



Sources : IBPA, MNCS Research

Key Investment Themes

Embarking a political year

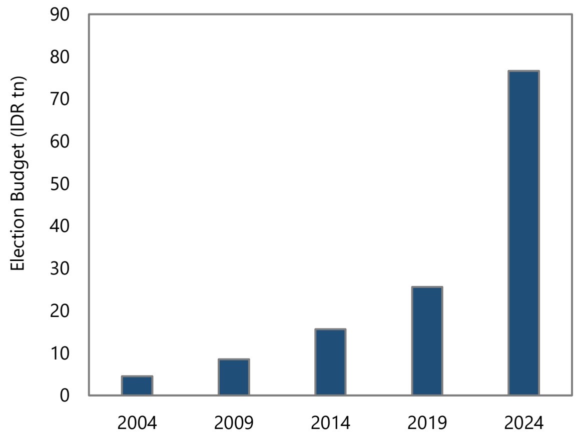
Only in less than 2 years, Indonesia as the 3rd largest democracy in the world will hold general elections. Despite the official candidacy for president and its vice remain to be confirmed up until 25 November 2023, the festive atmosphere has been swiftly felt. In addition, this time, the incumbent President Joko Widodo would no longer have a chance to be re-elected according to constitutional mandate of max 2x term limit. Furthermore, recent maneuvers from political parties either from the opposition or coalition is so fluid and bringing a more sense of dynamic political contest.

What's interesting to note is general election budget for 2024 will hit its highest amount at IDR76.6tn (~3x than in 2019). The logistic cost for 5-year democratic party seems to elevate in the time of transition between pandemic to endemic. The general election that will be held simultaneously is expected to have a multiplier effect particularly in bolstering domestic consumption.

From the historical perspective, responds of capital market on elections were largely positive. In the last 2 elections, stock market successfully outperformed the bond in 2014, whilst the opposite occurred in 2019. From the global macroeconomic context, Indonesia's economy was overshadowed by tapering in 2014 and haunted by US-China trade war in 2019. Indeed, past performance does not necessarily reflect potential future outcomes as in the case for 2023 is expected to face a global slowdown.

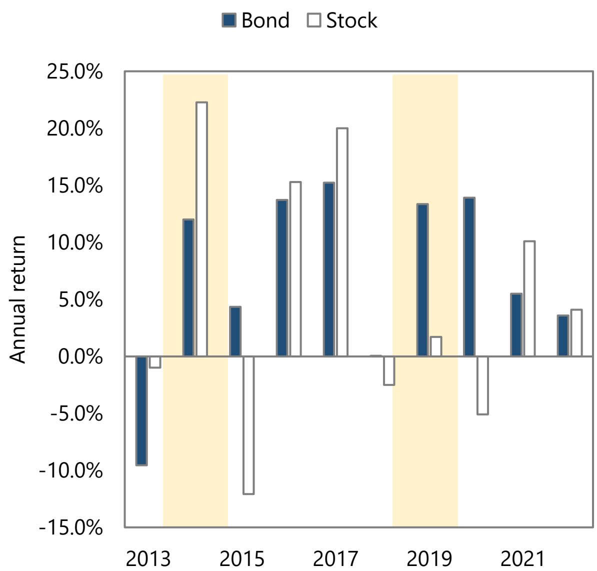
Sectoral wise, general election is expected to be a positive catalyst for media as each of political party will spend a huge budget for their political campaign. During 2019's presidential election, budget allocated for advertising and campaign on TV was estimated IDR602bn. Despite the fact that media consumption is essential for running a campaign, this is not always the case for the stock prices reaction. In 2014, media affiliated stock prices were rising in 6 month prior to the day of election yet to normalize post election. However, in 2019 election media stock prices were not simultaneously catalyzed. We expect in 2024 amidst diverse media option and the rising of social media such as TikTok and YouTube that are most popular recently, media campaign budget would be no longer concentrated on TV-related ads.

Exhibit 34. 2024 election budget increased substantially



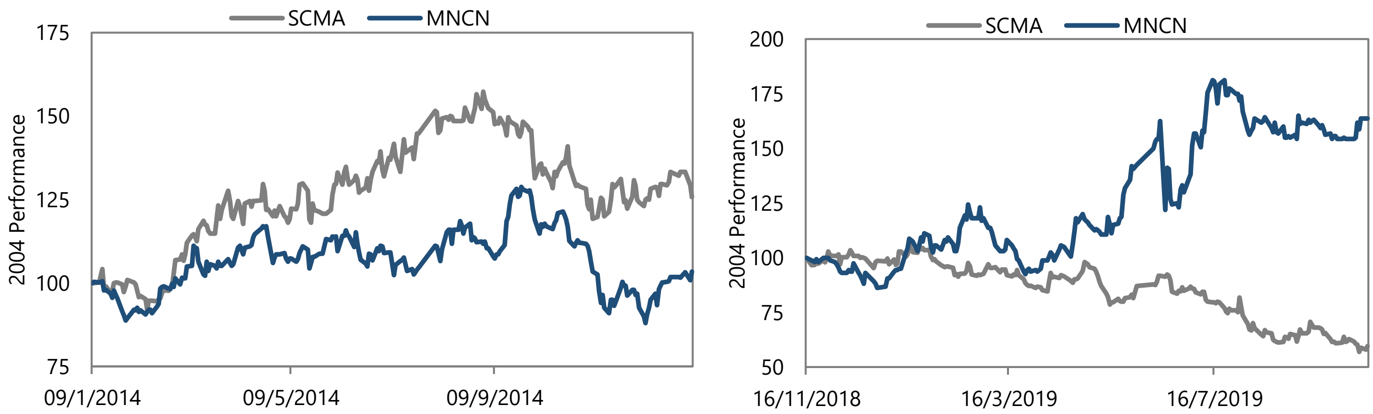
Sources : MoF, KPU, MNCS Research

Exhibit 35. Election is positive for stock & bonds?



Sources : Bloomberg, S&P, MNCS Research. Note : stock using JCI while bond using S&P Bond Indonesia index

Exhibit 36. Media stock price behavior 6M before & post election



Sources : Bloomberg, MNCS Research

Fostering sustainable growth through ESG

Ensuring sustainable economic growth will necessitate country to practice ESG across the sectors. ESG implementation has been focus on mitigating climate change impact so far by the effort to reduce carbon emission. It entails energy transition, transformation in transportation sectors, downstream industry and of course sustainable financing framework. For Indonesia, a bold move is directed towards envisioning to be the global player in the EV industry. While we view this initiative to be positive in the long run, yet we will briefly discuss remaining challenges that need to be addressed.

Nickel downstreaming to support EV ecosystem
As a nation with ample nickel reserves of 21 million tons (USGS, 2021), accounting 30% of world's reserves, the Indonesian Government continues to set in motion strategies to capitalize on the forthcoming spike in nickel demand amid green energy transitions.

Several policies include the ban on raw nickel exports that has taken effect since 2020 and more recently the formation of the Indonesia Battery Corporation (IBC), a consortium of four SOEs, namely ANTM, MIND.ID, PERTAMINA and PLN. The ultimate aim of IBC is to cultivate national end-to-end EV battery ecosystem. To provide the transfer of technology necessary to reach that goal, IBC adopts joint venture contracts with global companies already adept at producing EV batteries. Despite Indonesia's lawsuit loss against EU in Sep-22 at the WTO against the nickel ban, officials persist that the policy will not change as the lawsuit has not been legislated and they aim to make an appeal. At the worst case-scenario that the appeal would not pass, the government plans to enact higher export levies and DMO to preserve the nation's interest of developing the battery ecosystem. Interestingly, as government prepares to take off with the ambitious project, some public companies also follow the suit. We see many of them have allocated capex to diversify into nickel downstreaming. Projects. Here we discuss initiative taken by 4 metal & mining companies in nickel downstream industry.

Exhibit 37. Considerable amounts of investments had been put into the profitable future of nickel downstreaming

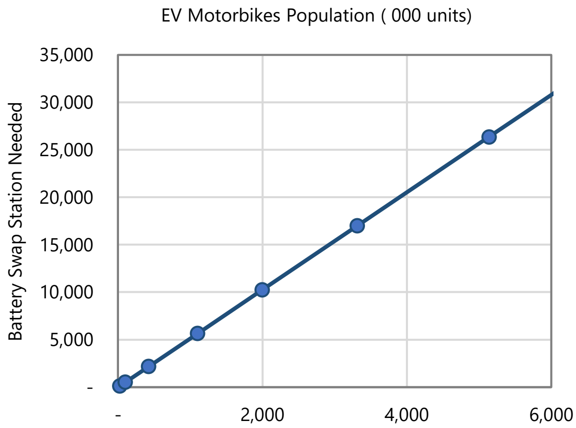
Company	Commodity	Location	Ongoing Investment Projects	Progress	Capex
ANTM	• Ferronickel • Nickel Ore • Gold • Silver • Bauxite • Alumina	• Southeast Sulawesi • North Maluku • West Java • Kalimantan Barat	Ferronickel smelter project in Halmahera Timur. Capacity: 13.5 kT Ferronickel p.a.	• Construction progress reached 98% as of Mar-22. • Signed electricity supply agreement with PT PLN. • Set to be operational by 2Q23	~USD260 million
			Oxygen-Enriched Side-Blown Furnace (OESBF) with CNGR Co. Capacity: 80 kT Nickel matte p.a.	• Signed FA in Nov-22. • Projected to complete by 2025.	N/A
			Smelter Grade Alumina Refinery (SGAR) with PT Inalum and PT PP. Capacity: 1 MT Alumina p.a.	Projected to complete by Jul-23	~USD831.5 million
INCO	Nickel Matte	• Central Sulawesi • Southeast Sulawesi • South Sulawesi	Sorowako HPAL with Huayou. Capacity: 60 kT MHP p.a.	• FID by early 2023. • Construction to complete by 2026.	USD1.8 billion
			Pomalaa HPAL with Huayou & Ford Motors. Capacity: 120 kT MHP p.a.	• FID by end of 2022. • Operational by 2026. • Huayou share increased to 80%.	USD4.5 billion
			Bahodopi RKEF with Tisco & Xinhai. Capacity: 73 kT p.a.	• Early works in progress; Land acquisition, detail engineering and EPC selection. • Operational by 2025.	USD2.1 billion
MDKA	• Nickel Pig Iron • Gold • Copper	• South Sulawesi • East Java • Central Sulawesi • Maluku	Pani Gold Project. Resource: 4.7 million oz Gold. Capacity: 250k oz Gold p.a.	• Feasibility study to complete in 2023. • Set to be operational by 2H25.	N/A
			Acid Iron Metal construction project.	• 98% design completion. • 75% procurement completion. • Construction to complete by Jul-23.	Capex projected at USD412
			Tujuh Bukit Copper exploration project.	Exploration to complete by Mar-23.	USD131 million committed on PFS
			ZHN RKEF Smelter in construction. Capacity: 50 kT NPI p.a.	• 58% completion as of Sep-22 • Construction to complete by Jul-23.	N/A
HRUM	• Nickel Pig Iron	• North Maluku	PT Position nickel mine	• Undergoing: permit application & mine study, hauling road survey and drilling • To be operational by 1Q24	N/A
			PT Westrong Metal Industry nickel smelter	• 23% civil construction • 67% main workshop • To be operational by 4Q23	N/A

Sources : Companies, MNCS Research

Riding on EV on the road

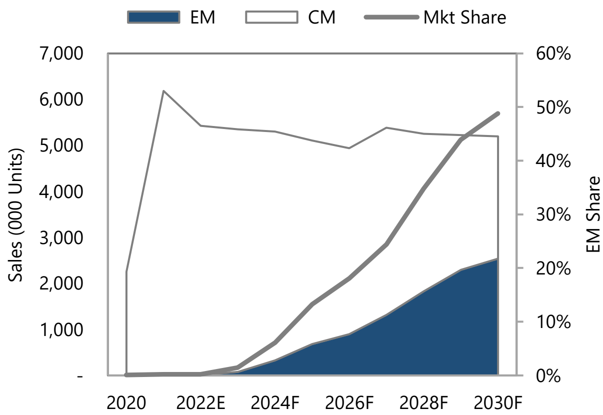
Government ambitious target to have 30mn EV motorcycle on the road by 2030 is facing challenges from the infrastructure readiness and customers' appetite. Considering +1000 units monthly EV bike sales, there are still a lot of work to do. In order to ensure the target is achieved, government even plans to give additional stimuli. Government said to incentivize the manufacturer amounting to IDR80mn for EV automobile and IDR8mn for EV motorcycle. It sounds more ambitious given limited fiscal space. Yet, fiscal incentives are indeed essential to accelerate this industry. Any fiscal incentives either for manufacturer or customers will lower Total Cost of Ownership (TCO). Our model shows that for the case of EV motorcycles (using Gesits, Vario 125 and Beat 110 as the most popular ones), Gesits that represent the EV motorcycle is already having lower TCO (~20% discount to Vario 125) and at least on the same level of TCO to Beat 110 using various assumptions (please see our separate report). Interestingly, albeit the sales volume to remain low compared to conventional motorcycle, EV players are growing rapidly. According to AISI, there are >30 brand names of EV recently. Some of them are manufacturer that focus on EV while some others are previously energy company that diversify into EV by forming a JV. We think, players that offer swap battery model for customers will be more competitive now as it provide lower TCO and higher practicality. However, having 30mn EV motorcycles by 2030 still sound ambitious even with the 2020-30F CAGR reaching +106% and sales of EV market share account for 49% will only achieve 77% from the target.

Exhibit 38. How many battery swap stations are needed?



Sources : MEMR, MNCS Research

Exhibit 39. Is 30mn EV motorcycles by 2030 ambitious?



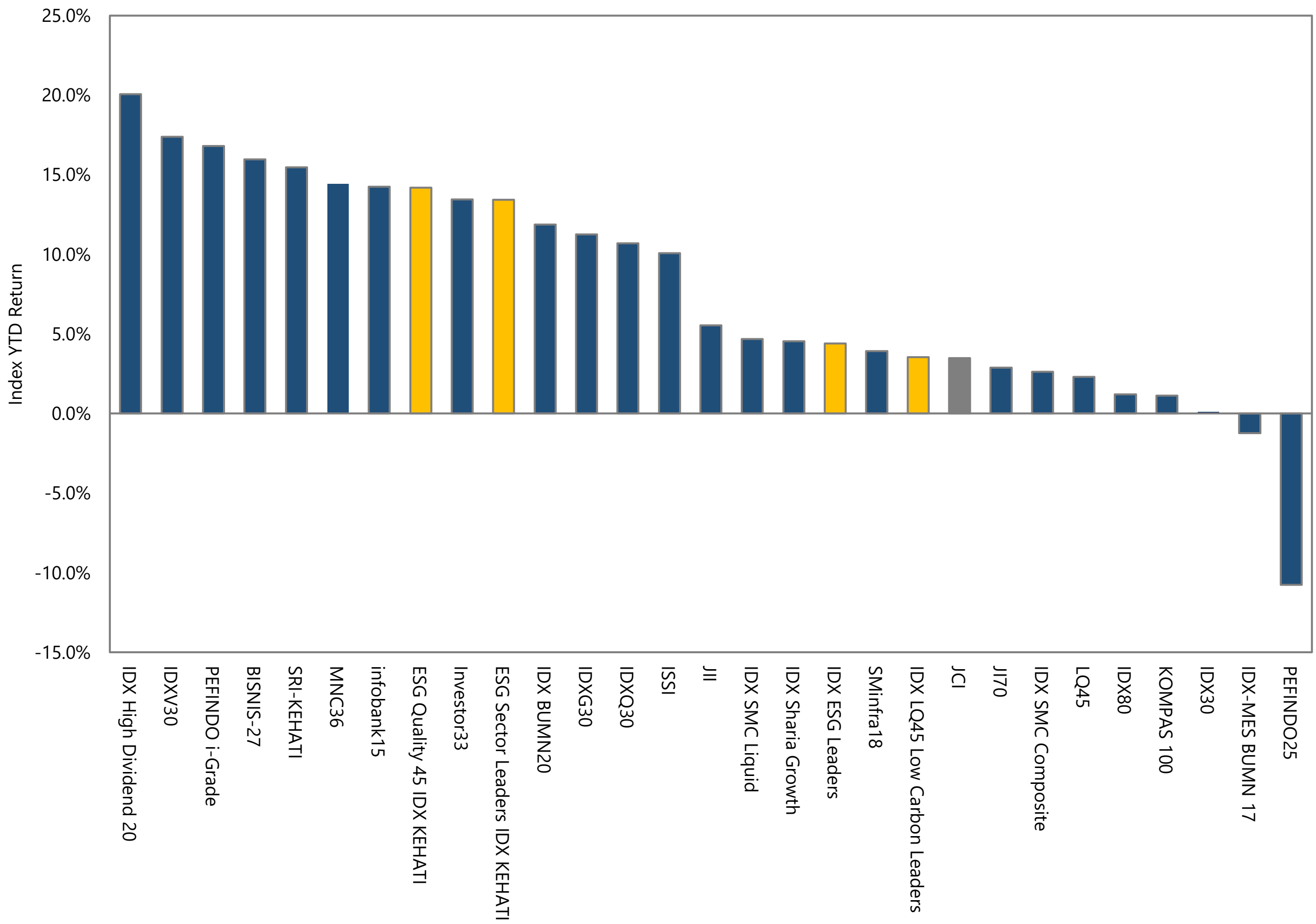
Sources : IESR, UN, Statistics Indonesia, BI, MoF, MNCS Research

Is the market ready for ESG?

As the economy and industries embark on ESG, so does the market. The emergence of new indices particularly with ESG related themes have flourished lately. Companies which excel at ESG practice are then selected and weighted to be pooled in and index.

Currently there are at least 4 thematic index associated with ESG which interestingly outperforming the benchmark (JCI) return in 2022. All in all, we maintain our positive view on ESG practices as it will also reflect economic and industries activities. In addition, ESG focus and diverse option across the indices will also attract foreign fund flows to come in the long run.

Exhibit 40. ESG related index outperforming JCI



Notes : yellow bar indicates ESG-related theme while dark grey is benchmark. Sources : IDX, MNCS Research

Sector	Outlook	Rating
Agriculture	We see for the potential increase in palm oil export demand by +58.6% YoY, offsetting the lower demand from EU with China and India (accounting for -29% of nation import volumes) potentially absorbing 8.9 mn mt palm oil products in FY23F. However, GAPKI projects the Indonesia's CPO production in FY23F to fall by 1.9% YoY to 51.5 mn mt, while Malaysia production up +2.0% YoY to 18.6 mn mt. We forecast the CPO price to be stable at MYR3,500-4,500/MT, driven from: 1) stable global supply/demand condition; 2) maintained crop productivity. We project the earnings of plantation companies in our coverage to ease up amidst the reduced average CPO price by -22% YoY, as well as potentially high fertilizer price, thus lowering the margins.	N
Automotive	Some challenges may still be faced by automotive industry including : 1) potentially slowing economic activities; 2) auto chip shortage to last through FY23F; 3) IDR depreciation and higher price of raw materials, yet positive catalysts come from EV sales incentives and huge EV investment and increase use of domestic component. On the other hand, valuation of companies under auto-sector is considered cheap.	OW
Banking	Our assessment for banking industry FY23F : 1) BI expects loan to grow +10-12% next year given banking ample liquidity; 2) customer deposit could grow in-line with credit and thus averting liquidity constraint ; 3) dominant CASA franchise funding will help to offset NIM decline from raising interest rates and high reserves requirement; 4) sectoral based credit-restru extension will help banks to improve its asset quality; 5) corporate action particularly among small banks (KBMI I) to meet minimum capital requirement of IDR3tn to cause higher CAR, yet we believe funding may be more limited than in FY21. Still expect double digit EPS growth for FY23F for banks under our coverage (+12.2% YoY), but more normalized than in FY22E (+42.7% YoY).	OW
Cement	In our view, the cement sector has potential to perform better in FY23F. This was driven from the increase in the infrastructure budget by 7.8% YoY to IDR392tn, indicating that the government remains focused on infrastructure development, especially the national strategy project (PSN). To stimulate this plan, the government has distributed state equity participation (PMN) in FY22, and possibly in FY23F for several projects such as the Sumatra toll road and the Bandung high-speed train. The IKN development also acts as a proxy for the cement sector, through phase 1, the development had reached 348 ha with a project value of IDR5.3tn.	OW
Cigarette	Despite of the election will be held in early FY24F which promising for cigarettes sales volume, through PMK 191/10/2022 the govt has increased weighted-average-excise-tax by twice in FY23E & FY24F each of 10%, then followed by retail sales price (HJE) by 7.9% YoY & 10.0% YoY, respectively. We think that companies need to raise ASP 7~11.5% in FY23F to maintain VAT margin. Moreover, we believe the downtrading behavior may continue favoring small producers that are imposed with lower excise tax.	UW
Coal Mining	We estimate earnings in our universe will experience a normalization in FY23E as the price is potentially moderate from an all-time high level in FY22. Nevertheless, we expect operating cash flow to remain strong based on its forecast for coal prices to stay above the pre-pandemic level. The ample cash flow will support dividend payments and comfortable levels of net leverage. We note that cash outlays are mainly supported by diversification-related investments. Some companies initiate projects to move away from the coal business amid investors' heightened ESG concerns and tightening funding access. However, we expect capex budget of most coal miners to remain low, as none have major growth plans. Potentially get the positive impacts from the BLU implementation targeted to become effective in 1Q23	OW
Construction	Tight balance sheet still a concern in FY23F. We see that the recycling asset plan will potentially subside due to the global geopolitics conflict causing the postponement in investment by the investors. This will potentially disturb several companies who are planning to improve its financial health, such as WSKT. Things that stemming FY23F outlook : 1) single digit growth of new contract; 2) delayed payments by clients; 3) rising interest rate. However, we believe IKN sentiment could be a turnaround story in the futures to overcome the balance sheet construction players.	N
Consumers	We remain concerned regarding the robust taxes collection, especially from excise-tax plans on tobacco, plastic products, and sugary drinks (MBDK). Despite having no further detail regarding this regulation, this will be our future concern as the related beverage segments contribute 15-21% of the company under our universe revenues. FX lost may be offset by higher ASP and margin as commodity prices are expected to soften. All in all we expect domestic consumption to remain resilient thus favoring the sector.	OW
Healthcare	As Covid-19 infection is successfully undercontrolled marking pandemic transition to endemic, social restriction measures are lifted off. However, healthcare sector outlook will remain driven by government policy such as rising social insurance premium as well as KRIS implementation.	N

Sectoral Views

Sector	Outlook	Rating
Metal Mining	Expect weak external demand to likely soften the commodity prices. However, undergoing business expansions by major metal companies and the brewing growth of EV and renewable energy transition likely to catalyze metal demand and prices, especially nickel.	N
Oil & Gas	O&G prices to remain above pre-pandemic level throughout FY23F as weak external demand is offset by the remaining of supply disruption due to war. Higher price, followed by strong financial performance will result in dividend payment as well as reinvestment in upstream and downstream business, particularly on energy transition project. Ample cash flow to favor shock and dividend payment.	OW
Poultry	Starting FY23E, DOC prices managed to rebound to level 6.5k from 2.9k in Oct-22, thanks to a culling program that ran from 16-Dec’22 to 28-Jan’23. These controling 42.6 mn supply production of DOC FS which accounts for 18.7% of surplus in Jan-22. As DOC prices has stable given demand/supply has meet, we expect the revenue in our coverage should increase. Additionally, early 2Q23's Eid seasons typically raise sales volume, which is advantageous for poultry companies.	OW
Property	Despite having a discount to its fair valuation (for MNCS property coverage), as the mortgage rate has gotten close to 8%, higher interest rates limit the companies' earnings. We anticipate that marketing sales will be roughly at last year's level. Furthermore, the government has no further plans to continue the value-added tax incentive (PPN DTP), which expired in 9M22. The government merely prolonged the LTV policy (0% DP), and we believe this is insufficient to adequately limit the risks that the real estate sector will face in the future.	N
Retail	We foresee the aggregate revenue & net income growth in FY23F for retailers under our coverage to be +44.7% YoY/+32.6% YoY, respectively, mainly by: 1) better inventory days close to pre pandemic level; 2) improving omnichannel strategy; 3) ample cash to maintain liquidity.	OW
Telco	We assess that FMC brings cost optimization to the opex and capex of the MNOs, which specifically can be seen through single billing system, common marketing campaigns, joint product development, and integrated IT systems. Other benefits of FMC also include: 1) possibility of cross-selling for efficiency; 2) more fixed broadband subscribers; 3) simplicity for operators from integration of products/services; 4) reduced churn among fixed broadband users and mobile broadband users; 5) encourage higher data consumption for both mobile and fixed broadband services. Also, the increase of data plans can improve their earnings and services, and next year, we expect for more increases of data packages.	OW

Notes : sectoral rating is ordered alphabetically; Neutral (N); Overweight (OW); Underweight (UW). Source : MNCS Research

Investment Strategy

How to allocate asset?

Defensive strategy may deliver better risk adjusted return for 2023 since uncertainty risks remain linger. A balanced portfolio is expected to outperform as we dig deeper every asset class also offer interesting opportunity to tap in.

Money Market

Time Deposit (TD) rates to increase gradually to depict monetary policy transmission, yet considering bank still have aplenty liquidity, treasury assets may be more attractive for the short term (1-year Indo GB ytm >5% vs TD rates <4% for 12M period)

Fixed Income

Fixed income assets will depend on how attractive yields are. BI intervention to keep short-end higher in-line with policy rate while long-end steady (rate corridor) would benefit a short duration fixed income portfolio.

Equity

Favor stocks which have : 1) sizeable profit & dividend; 2) ample cash flow; 3) low gearing; 4) cheap-to-rationale valuation and companies that are competitive in implementing ESG-practice

Equity focus : stock pick

Our top picks consist of multiple sectors as we believe diversification would reduce risk during uncertain time. Furthermore we also like a less heavy stocks on index weight and favoring them that less reliant on foreign fund flows in the midst of high selling pressure from foreign investors. We choose BBNI and BBRI on the back of their earnings growth outperformance in FY22 and the likelihood to record double digits growth of EPS in FY23F as well as high dividend payout ratio. We like AUTO as our alpha stock that we think would reap the benefit from continuous EV development. For EXCL, we like their de-leveraging strategy and thus we believe this time to be their turnaround momentum. We add ICBP primarily for its pricing power and potentially softening raw materials price to result in higher margin. As we see middle-up consumers to be more resilient and catalyzed by transitioning to endemic state and thus we add MAPI. Further implementation on ESG particularly shifting towards renewable energy would favor KEEN on top of its relatively undemanding valuation. Lastly, we also add SMGR on the back of the share price is traded at a discount to its fair value and benefitting from higher infrastructure budget in FY23.

Stock Pick	Mkt Cap (IDR bn)	Index Weight	P/E		P/B		Target Price (IDR/share)	Rating	Last Price (IDR/share)	Upside Potential
			FY23F	FY24F	FY23F	FY24F				
AUTO	7,037	0.1%	7.2	6.9	0.5	0.5	1,700	BUY	1,460	16.4%
BBNI	172,034	2.5%	8.4	7.2	1.1	1.0	11,400	BUY	9,225	23.6%
BBRI	748,701	10.3%	13.7	12.3	2.3	2.1	5,700	BUY	4,940	15.4%
EXCL	26,683	0.4%	13.9	13.8	1.1	1.1	3,400	BUY	2,140	58.9%
ICBP	116,619	0.9%	16.0	14.1	2.8	2.5	12,200	BUY	10,100	20.8%
KEEN	2,383	0.0%	11.1	10.3	0.8	0.8	1,080	BUY	650	66.2%
MAPI	23,987	0.4%	16.2	12.8	2.8	2.4	1,600	BUY	1,445	10.7%
SMGR	44,392	0.8%	14.6	12.7	1.0	0.9	8,850	BUY	6,575	34.6%

Notes : data as of 30 December 2022. Source : Bloomberg, MNCS Research

Indicator Forecasts

Summary of key indicators forecast

Macro Indicators	Unit	FY22E	FY23F		
			Best	Base	Worst
Real GDP	%YoY	5.20	4.90	4.78	4.60
CPI	%YoY	5.51*	3.50	4.53	5.06
7-day reverse repo	%	5.50*	5.50	5.75	6.00
IDR	Points	15,658*	15,125	15,550	16,050
Risk free rate	%	7.04	7.00	7.36	7.96
JCI	Points	6,851*	7,818	7,425	6,615
Implied EPS Growth	%YoY	20-30	12	8	-2
Implied P/E	X	14	15	14	13

Notes : (*) represents actual data. Source : Bloomberg, BI, MoF, Statistics Indonesia, MNCS Research

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Report Disclaimer

MNC Research Industry Ratings Guidance

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

NEUTRAL (N): 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 (UW): 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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