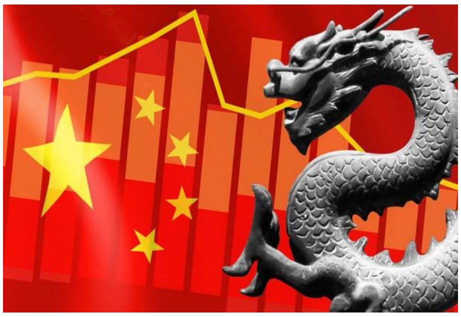
Rebalancing & rotation start early



Key Takeaways

- Starting 2023, the main story in the global financial market is dictated by rebalancing and rotation.
- Recent development : 1) rebalancing to China as growth prospect improved by easing pandemic curb measures reflected with USD4.9bn inflows to China; 2) foreign investors favor Indo GB and 3) sector rotation comes driven by risk and return opportunity in safer asset and cheaper valuation.
- Expect JCI correction to be shallow, with the bottom possibly at 6,406-6,571 assuming JCI earnings yield – Indo GB yield spread at 100-120 bps given the likelihood of moderating EPS growth.
- Stock to benefit from recent trend : 1) ANTM; 2) ARTO; 3) BFIN; 4) EXCL; 5) GOTO; 6) ICBP

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Starting a new year with the trend reversal in financial markets

The year of 2023 is marked by changing trends in global financial markets. Risky assets performance, particularly equity has gradually rebounded. Even the Nasdaq Composite index, which recorded its worst performance since 2008 last year, successfully strengthened 5.24% year-to-date. Interestingly, stock performance in countries that managed to outperform in 2022 is now turning around. The JCI, which was one of the world's best stock index in the world in terms of returns, is now flipped out. Only less than 2-week of trading days, JCI turned out to be the worst performing stock index globally. The foreign capital flows to domestic stock market has also changed direction. At the beginning of 2023, foreign investors net sold ~US$ 183 million from domestic equity market. This is contrast to 2022 which marked by massive inflows. This trend reversal seems to be driven by several key underpinning factors :

- **Rebalancing to China.** After easing the zero Covid policy and agreement on to revive its indebted property sector, China's output is expected to expand by +4.8-5.0% FY23F. China is seen as a better asylum amidst the threat of a global economic slowdown and even an increasing possibility of a recession. Apart from the debate regarding on how China firmly implements its pandemic measures exit strategy, sentiment on the Chinese financial market has improved as reflected in inflows of up to ~USD5bn. In addition, the benchmark stock index SH Composite increased +1.45% year-to-date.

- **Foreign investors prefer to hold Indo GB.** We estimate foreign net buying of government bonds to reach IDR59.2 trillion since Nov-22. The foreign flows into the government bond market has bolstered fixed income asset prices. We believe, this trend is driven by more attractive risk and return calculations in the bond market. In Oct-22, the 10-year SUN yield reached 7.6% and at the same time, the JCI's earnings yield was only 7.0%. Under these conditions, stock is traded at a premium compared to government bond and this provide opportunity to switch to cheaper yet less risky asset.

- **Sectoral rotation has come to play.** 9/11 sectors have driven JCI underperformance, particularly energy index which fell -7.37% year-to-date after having a fantastic performance last year. The finance index which has the largest weight on JCI continued to drop. This time, digital and big bank stocks have simultaneously triggered JCI's underperformance. In contrast to last year, the share prices of the big-4 banks dropped on the back of massive foreign selling. There are only two sectoral indices that have strengthened at the beginning of 2023, namely basic materials & non-cyclical consumers. Despite still reporting a loss in value, interestingly technology sector index turned out to be the 3rd best performing sector. The massive selling pressure seems to have started to subside. Nasdaq and Hang Seng rebound is likely to limit a deeper tech stocks de-rating. This sectoral rotation pattern can also reflect that assets with cheaper and rational valuations will tend to benefit.

Worry not, expect JCI bottoming to be shallow in the near term

Interest rate hike and fiscal consolidation have been favorable for bond investors as rising yield provides an entry point to optimize portfolio return. At a current valuation, JCI is traded at ~70 bps less premium to risk free rate. Assuming that the spread between JCI and 10-year Indo GB to be at 100-120 bps, we expect JCI bottom to be at 6,406-6,571 in a near term. JCI resilience should be bolstered that earnings growth outlook to remain positive despite moderating, this year.

Stocks may benefit from recent trend

We expect stocks that have smaller weight contribution to the broader index and less exposed to last year foreign inflows to be more resilient amidst the recent shaky market. We briefly discuss stocks that we like and under our radar for a short-term tactical move after paying attention to momentum on top of their fundamental and valuations. Our top picks and key considerations are summed up as follows :

- **ANTM :** as market participants see the aggressive rate hike cycle to end any time soon, gold price rebounded whilst DXY tumbled. Domestic gold price has risen following the global benchmark. We see this could be a positive catalyst for ANTM share price, besides its undemanding valuation.

- **ARTO :** digital bank stock prices have experienced a sharp decline last year and the trend continues recently. However, with a sharp correction (-25.27% year-to-date), ARTO's valuation looks cheap. On the other hand, we believe ARTO is still the best digital bank in Indonesia in terms of capital adequacy (CAR at 97.5% in Sep-22); profitability (NIM at 10.5% as of Sep-22) and funding strategy (CASA account for >70% customer deposits). Besides that, as ARTO operates as a full digital bank cost to income stickiness could be averted and thus chance of significant growth on the income side is possible.

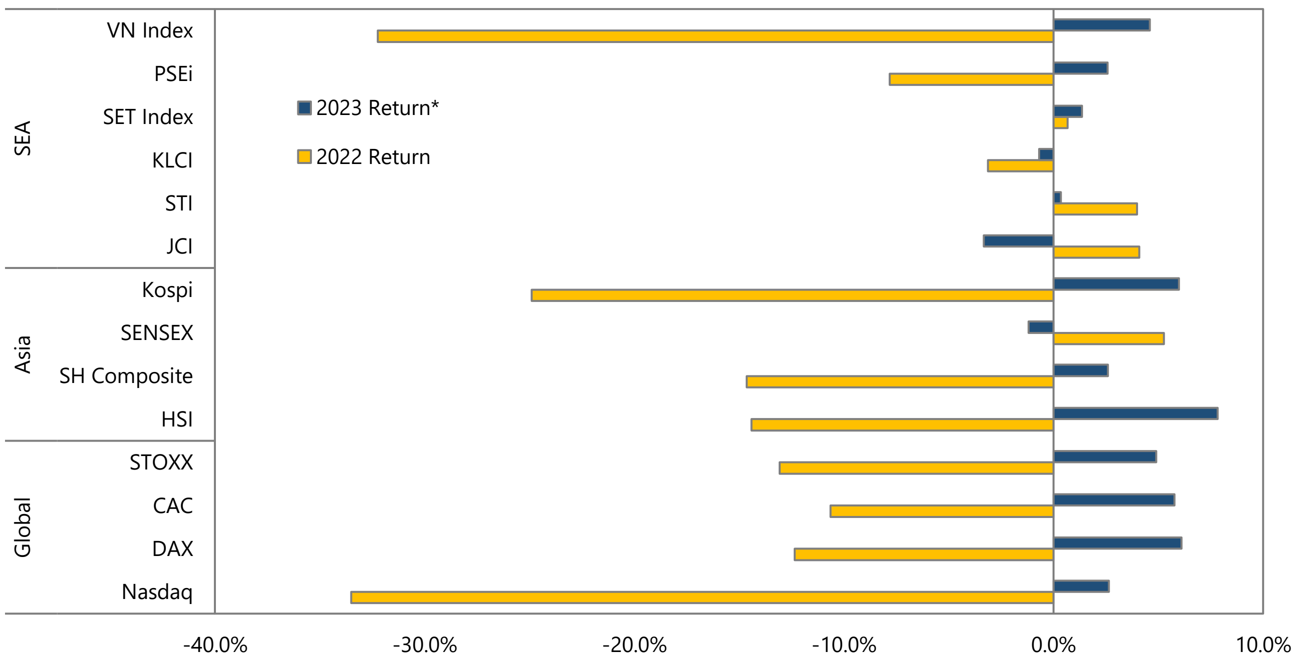
- **BFIN :** the stock weight on JCI only account for 0.4%. BFIN stock price has risen lately, up by +3.79% weekly. We like BFIN as we believe, after Jerry Ng takeover, collaboration with ARTO's possibly through joint financing could bolstered its financing activity. Besides that, BFIN is still the best financing company in terms of profitability reflected by double digit NIM and better than industry asset quality (lower NPF ratio compared to industry average).

- **EXCL :** the stock price has been traded up by +8.4% year-to-date. Even after rising, EXCL valuation remains cheap. Besides the attractive valuation we also like EXCL for their deleveraging strategy and data tariff hikes, given this segment has the largest contribution on EXCL topline side.

- **GOTO :** selling pressure post locked-up expiry has eased. GOTO's share price seems to be quite resilient. We think GOTO's positioning as the largest digital ecosystem in Indonesia. On the other hand, GOTO's focus on ecosystem integration, rising monetization particularly aiming higher take rates from Tokopedia and aggressive cost reduction initiatives would not only prolong its cash runway but also accelerate its profitability in our view. In addition, last year mounting pressure on its share price has caused valuation to be cheap traded at <0.2x P/GTV.

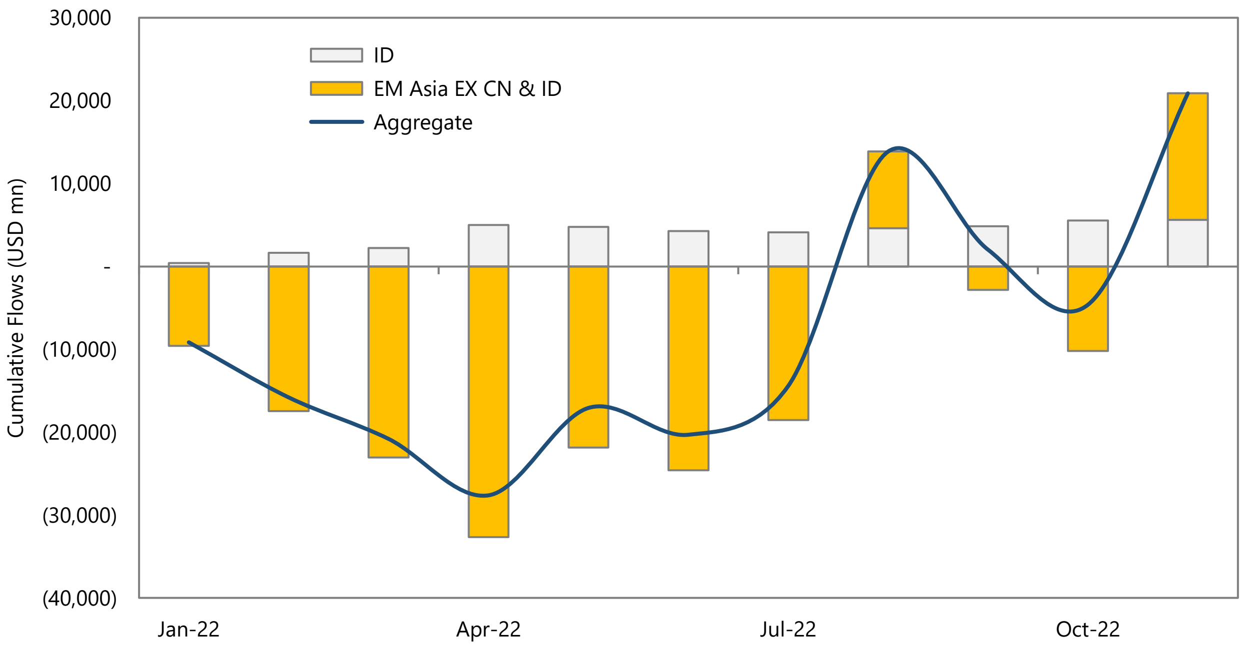
- **ICBP :** we believe that ICBP would benefit from a defensive strategy as investors may lean towards consumer non-cyclical sector. In addition, we add ICBP primarily for its pricing power and potentially softening raw materials price to result in higher margin.

Exhibit 1. Last year underperforming equity markets have now rebounded on the back of ending aggressive rate hike cycle



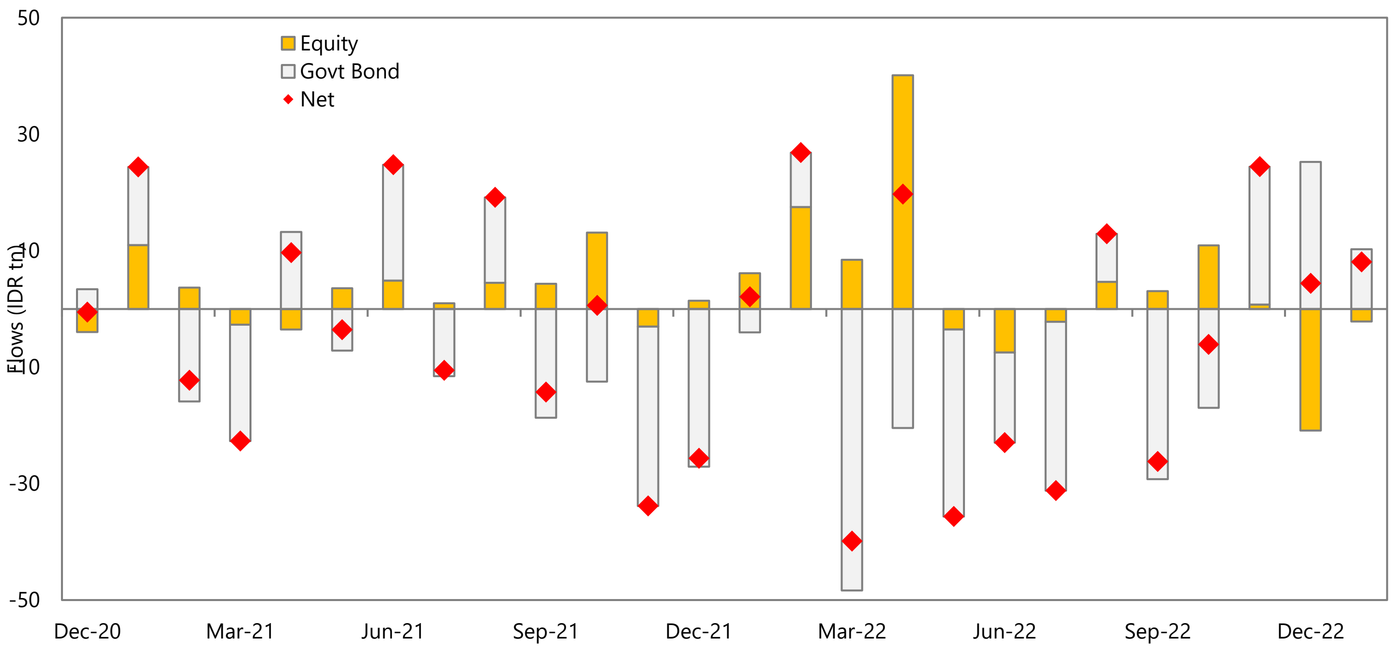
Sources : Bloomberg, MNCS Research

Exhibit 2. Foreign capital flows to equity is not coming to Indonesia but to China as easing zero Covid policy to boost economic performance



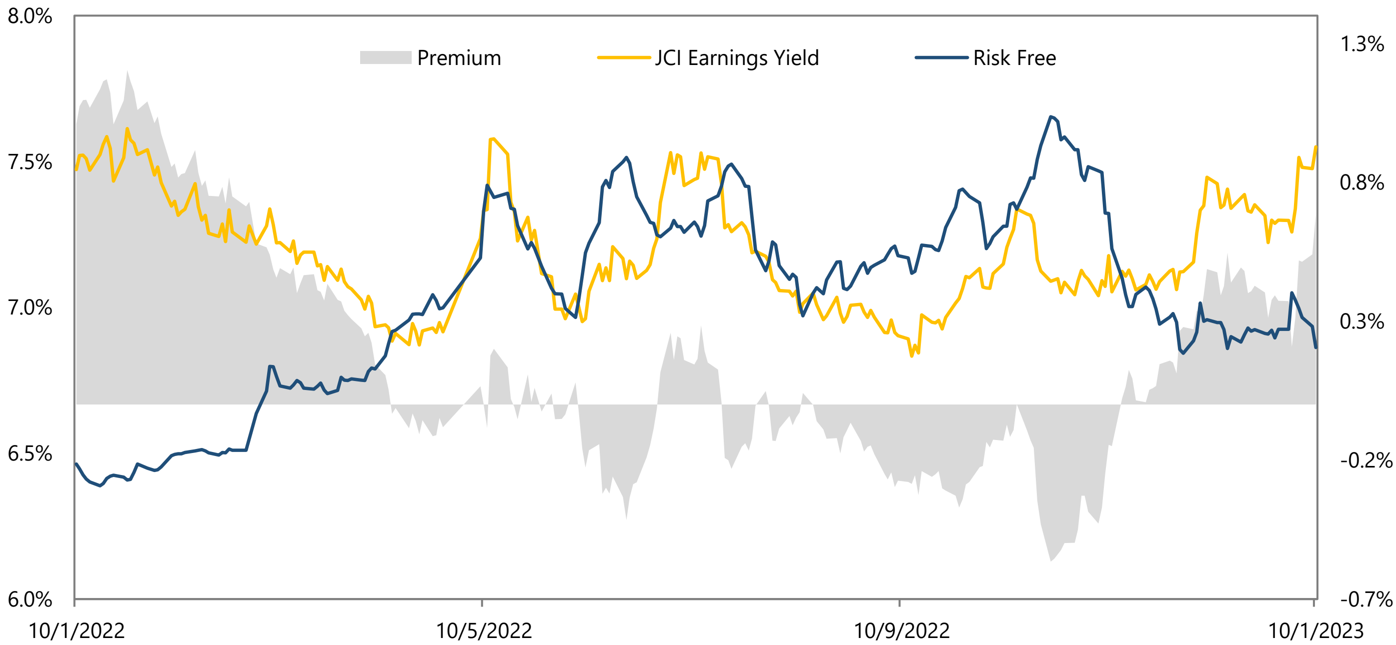
Sources : Bloomberg, MNCS Research

Exhibit 3. Foreign investors prefer Indo GB reflected by the inflows that start coming since Nov-22



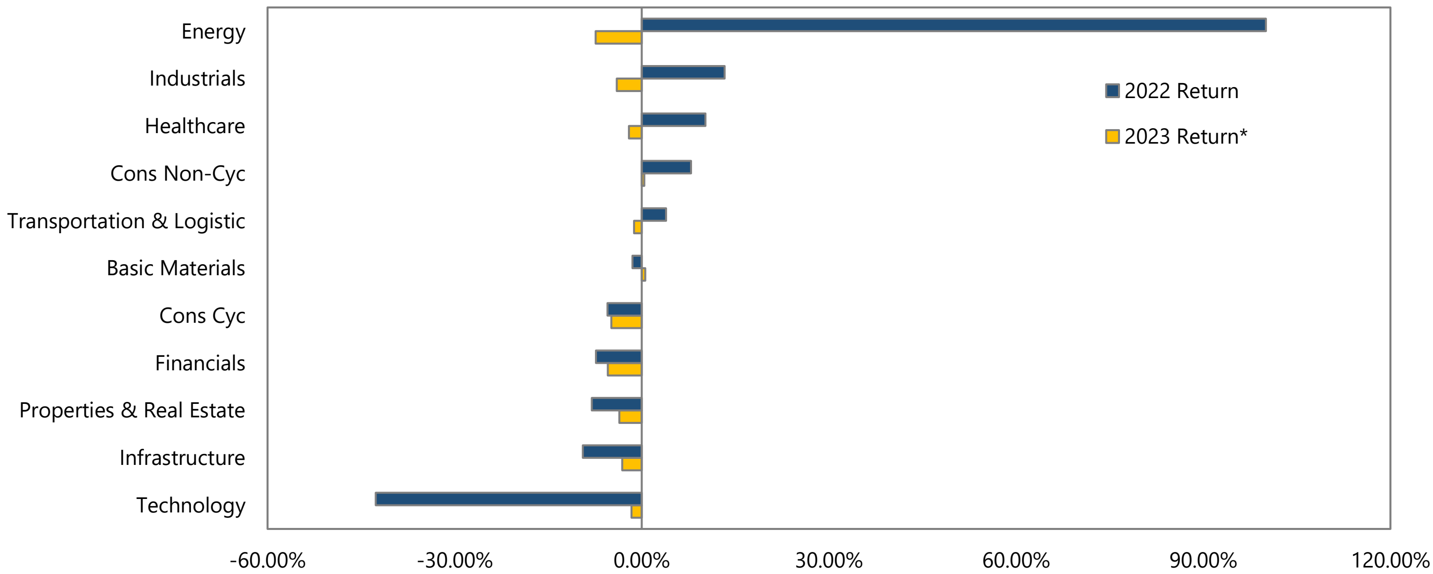
Sources : Bloomberg, MNCS Research

Exhibit 4. Interest rate hikes and fiscal consolidation are in favor for bond, JCI de-rating could continue but expect to be shallow



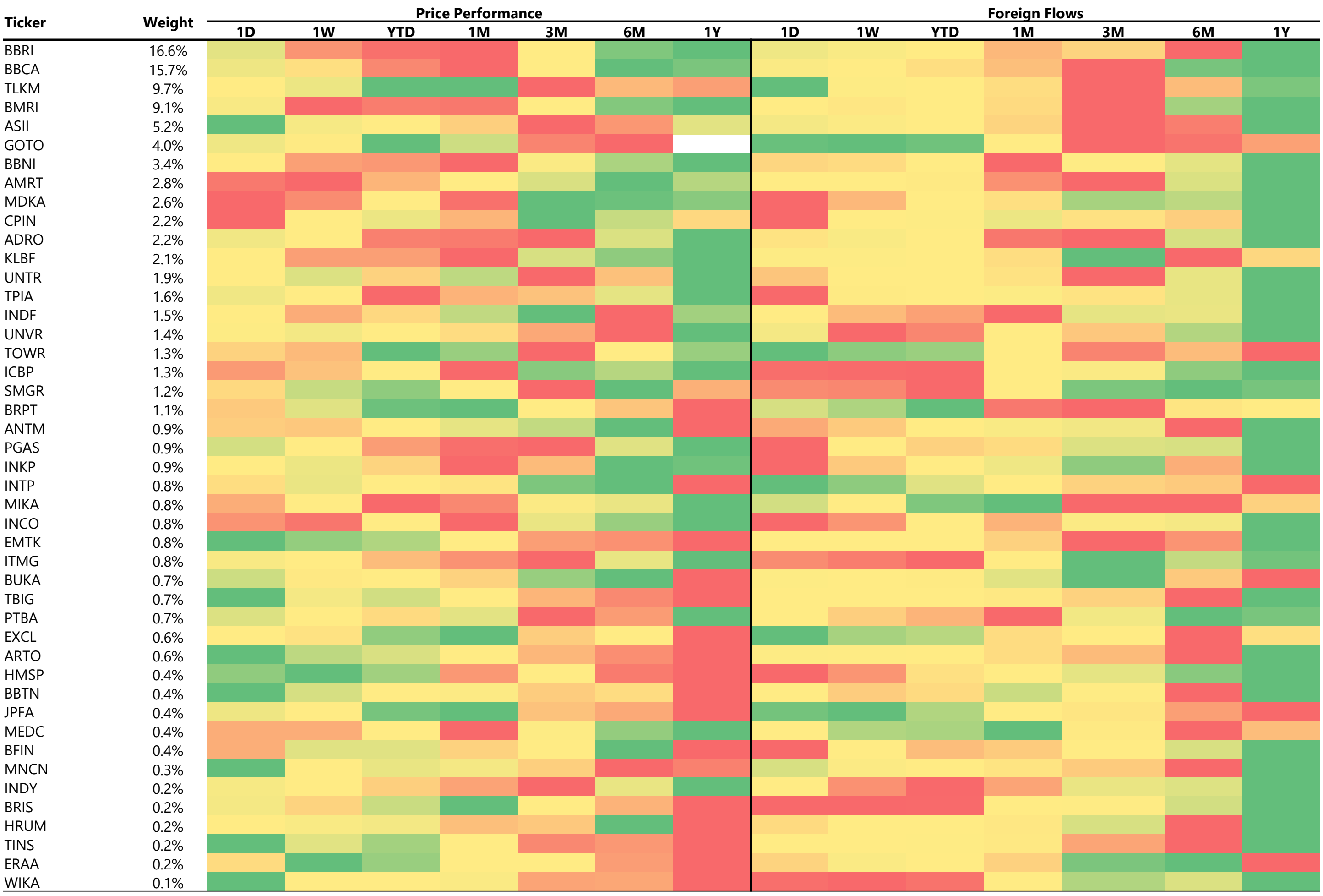
Sources : Bloomberg, MNCS Research

Exhibit 5. Sector rotation come early this year sectors which underperform last year could be benefitted from this trend



Sources : Bloomberg, MNCS Research

Exhibit 6. Stocks that underperformed last year may also benefit from recent trend



Sources : Bloomberg, 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

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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