

TACTICAL NEUTRAL

Global Equity Market Indicators

Equity	-1D (%)	YTD (%)
JCI	+0.43	-1.77
STI	+0.27	-1.24
KLCI	-0.67	-5.11
HSI	+1.17	-0.52
SSEC	+0.39	+6.71
KOSPI	+0.76	+14.34
Nikkei	+0.90	+19.13
FTSE	+0.18	+2.87
GDAX	-0.32	+15.32
DJI	-0.42	+0.45
S&P 500	+0.0	+9.64
NDX	+0.50	+22.47

Domestic Sectoral Equity Indices

Equity	-1D (%)	YTD (%)
Energy	+0.99	-19.77
Basic	-0.36	-15.18
Industrial	+0.57	-0.05
Non-Cyc	+0.55	+3.34
Cyclicals	+0.25	-0.16
Health	+0.18	-4.17
Financials	+0.53	-2.29
Property	+0.09	+1.94
Techno	-0.94	-6.95
Infra	-0.48	-6.05
Transport	+0.70	+8.68

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A clear sight of the liquidity flows

We have identified 4 trends of liquidity flows across asset classes recently which are characterized by : 1) lower stocks trading value but higher bond transactions, 2) the dominance of govt bond portfolio inflows. And on the equity side, we also observed that 3) market could still accommodate the corporate needs for liquidity as well as 4) how they manage it deliver value to shareholders particularly by paying sizeable dividend and stock repurchase. Here we sum up our findings below :

Trend 1 : a more active & cheered bond markets than in equities

The average daily turnover value in the stock market still lags behind that in the government bond and corporate bond markets. The average daily stock transaction in 4M23 was IDR10.3tn (-33.2% YoY), while the average daily outright transaction of government bonds was IDR21.4tn at the same time or recording a moderate increase of 3.5% YoY despite a decrease in overall transactions due to central bank's monetary operations. Meanwhile transaction liquidity on the corporate bond market increased +25.8% YoY to IDR2.1tn in 4M23. The condition of liquidity in the stock market is also in line with the performance of stock returns which experienced a correction of -1.8% year-to-date. We view that high interest rates and a flattening yield curve make stocks to be less attractive than fixed income assets, which currently provide real positive yields. However, conditions have reversed from being bullish towards equities throughout 2022 which turned to favoring bond for 2023.

Trend 2 : flows in (bonds, stocks & TD) & flows out (mutual fund)

Despite the JCI experienced a correction due to chance of modest FY23E EPS growth and lower margins, inflows of foreign funds continued to domestic equity market. Total net foreign purchases reached IDR 18.9tn. Yet this value was much smaller than the inflow to government bonds which reached IDR 60.5tn or 3.2x. We think with the maturing of FR0063 and PBS027 recently, liquidity still aplenty in the government bond market. Theoretically this would solidify bond market stability should the funds received from principal payment be invested in the same assets. At the same time, adjustments to deposit rates also attracted inflows, especially to FX assets. A more aggressive increase in FFR resulted in faster transmission of deposit rates, in this case FX deposits, thereby adding to the funding balance of FX TD by +15.8% YoY or the equivalent to IDR96tn inflows. Slower domestic rate transmission due to ample liquidity in the banking system has caused a modest increase in IDR TD by +2.9% YoY or the equivalent of an increase of IDR150.6tn. Interestingly, financial assets in the form of mutual funds have experienced a heavy outflow. MF NAV has dropped by IDR 7.8tn as of the end of Apr-23, which was mostly due to redemptions leading to the underperformance of this asset class.

Trend 3 : equity fund raising remained solid but jumbo IPO failed to take off

Despite having lower turnover, equity financing activities remained solid in the last 4M23 reflected by a rapid increase in fund raised through IPO. According to IDX data, throughout 4M23, the total proceeds from IPO reached almost IDR32tn or increasing by +74.5% YoY. Indeed, the pace was lower than in 4M22 which reached 5.5x YoY. Jumbo size IPO has shaped the trend at least in the last 3 years particularly after Covid-19. We recorded, there were 3 jumbo IPOs with proceeds reaching 88% of total fund raising, namely PGEO, NCKL & MBMA which are associated with mineral and energy commodities. However, since the IPO, the aggregate market value of the three companies has decreased by IDR 27.5tn, equivalent to a -13.7% decrease from the initial valuation at IPO. Besides the huge size, this was also attributable to softening commodity prices.

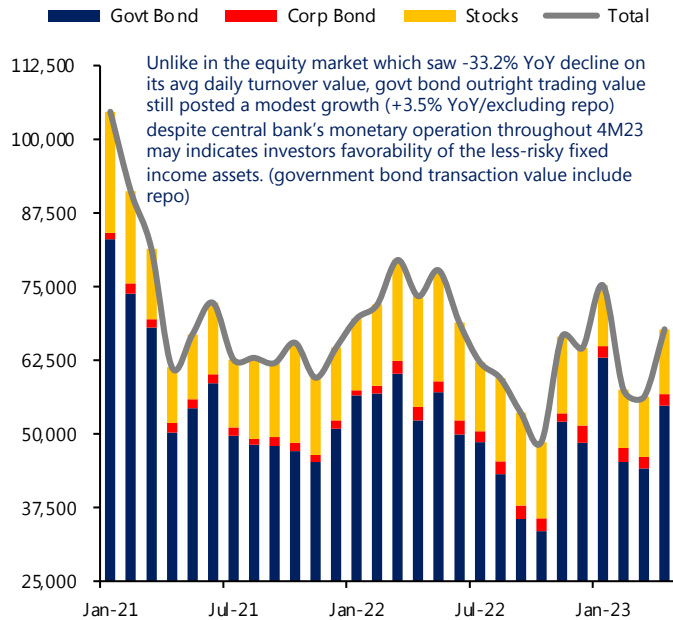
Trend 4 : using excess liquidity to deliver value to shareholders

The impressive earnings performance in FY22 led to higher dividend payments. Based on the 20 large publicly traded comps under our universe, the average DPR for FY21 fiscal year was 52% and the average DPR jumped by +600 bps to 58% for fiscal year of FY22. Excess liquidity can also be used for stock buyback in order to deliver value to shareholders. The cases of BBRI and ADRO are examples. Solid capital supported by good profitability allows BBRI to distribute dividends of 85% of its net profit and regularly conduct share buybacks. Meanwhile in the ADRO case with a large cash balance it can also optimize company's capital structure while propping up stock demand by stock repurchase. We have observed that at least there are at least 16 public companies and 7 of them are under our universe that plan for buyback and already obtaining approval from AGMS. All those 16 public companies have planned for a stock buyback with a maximum fund allocation of almost IDR 10tn.

Our stock picks outperformed the benchmark, but further rebalancing to deliver a more optimal risk-adjusted alpha

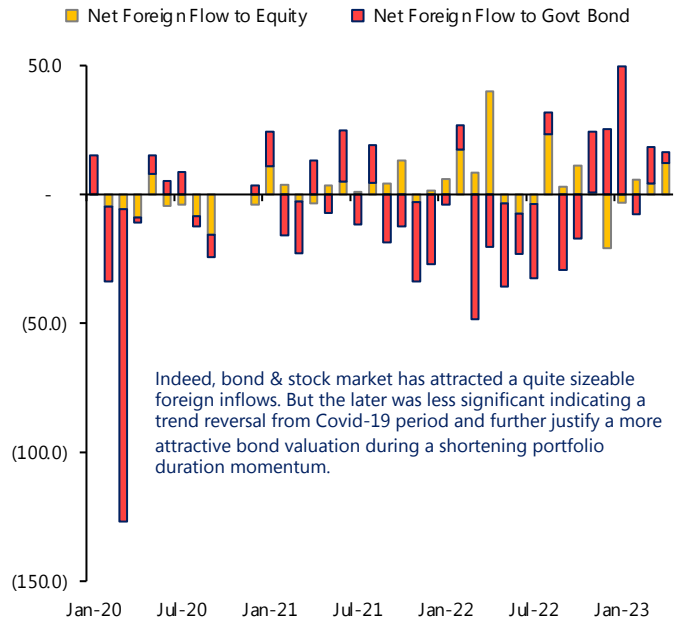
Previously, in our strategy report (May 8, 2023), we estimated that the JCI in the short term would move in the range of 6,667-7,097 or the equivalent of 7.75-8.25% earnings yield, assuming a spread of 10-1 year yield <100 bps. With the long-short term state bond yield spread remaining below 100 bps, the JCI movement in the last 10 trading days was still in line with our expectations (actual 6,663-6,812). Previously in the report we liked the following stocks: AUTO, BBNI, BSDE, GGRM, GOTO and SMGR. Both with the market cap weight and equal weight approaches, on a portfolio level could still provide an excess return of +224 to +506 bps from JCI. The equal weight method provides a higher risk-adjusted alpha, albeit some of our preferred stocks, such as AUTO, tend to have lower liquidity (transaction volume & value). Furthermore, in detail, as many as 4 out of our 6 selected stocks managed to provide positive returns except for BBNI and GGRM. Our hypothetical portfolio excess return was driven by AUTO, GOTO, SMGR and BSDE stock prices appreciation in the last two weeks. In addition, our hypothetical portfolio also benefited from the net foreign inflow of cumulatively IDR558.5bn, mainly contributed by net foreign buying of GOTO due to MSCI index inclusion. Assuming a weighting of 2-3%, we estimate that foreign inflows to GOTO shares can reach at least USD 300 million on the back of global index inclusion. In the short term we plan to rebalance stock picks tactically to continue providing excess returns while optimizing portfolio risk profile. Maintain tactical neutral for domestic stock market.

Exhibit 01. A more active government bond transactions



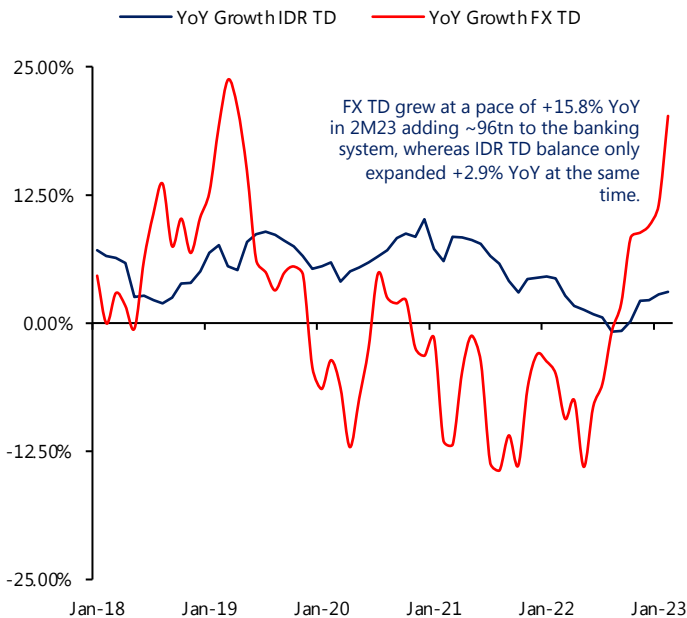
Notes : values in IDR bn. Sources : Bloomberg, IDX, DJPPR, MNCS Research

Exhibit 02. Inflows to equity was less significant than gov't bond



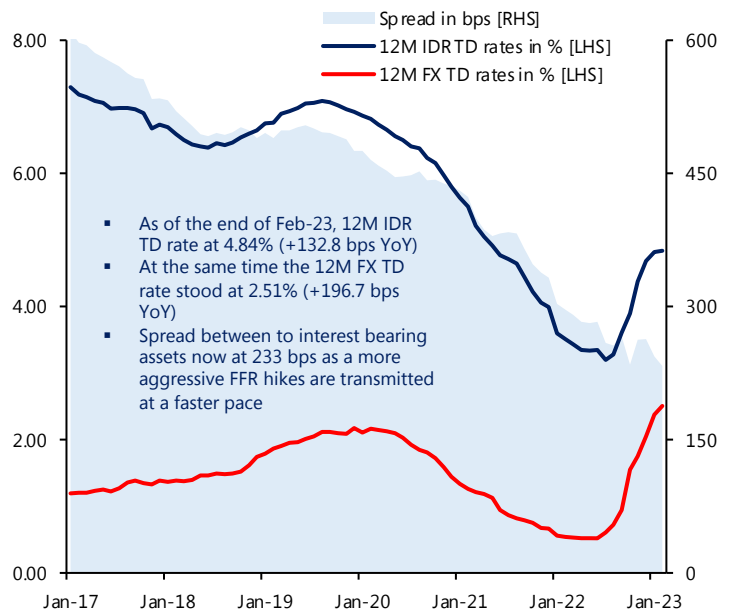
Notes : values in IDR tn. Sources : DJPPR, IDX, MNCS Research

Exhibit 03. Sizeable inflows to FX interest bearing assets



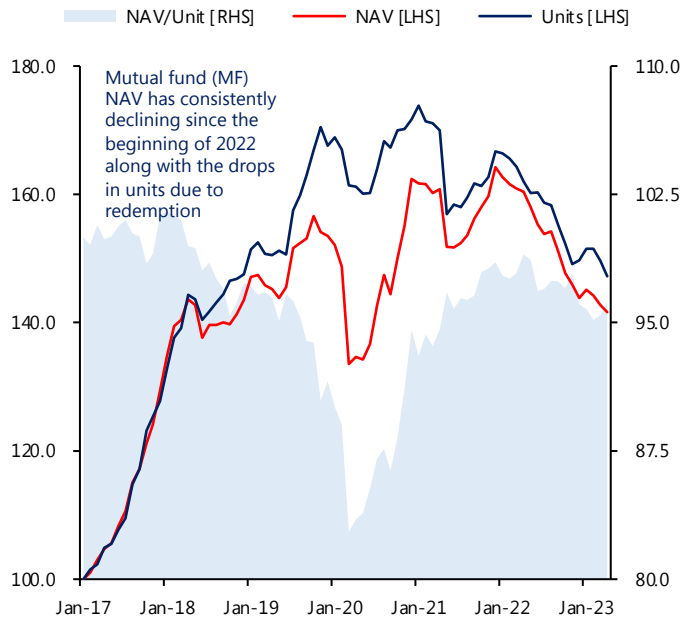
Sources : OJK, MNCS Research

Exhibit 04. FX TD on the rise along with rate transmission



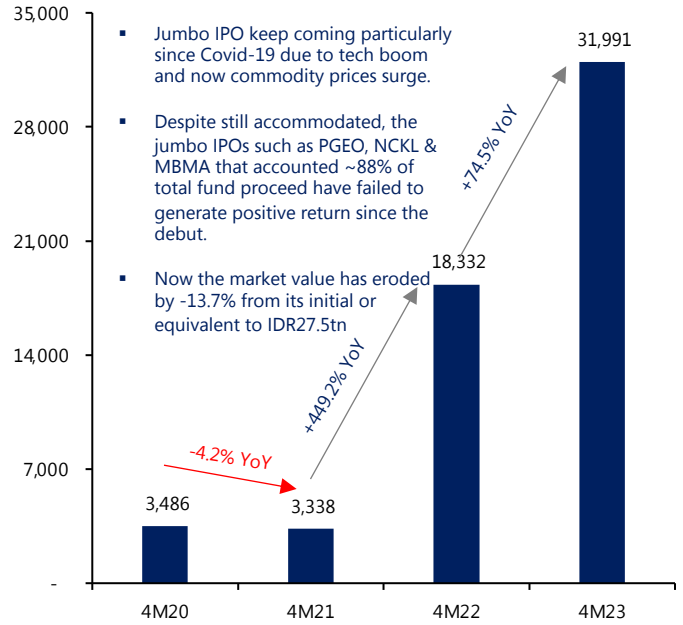
Sources : OJK, MNCS Research

Exhibit 05. Continuous outflows from mutual fund



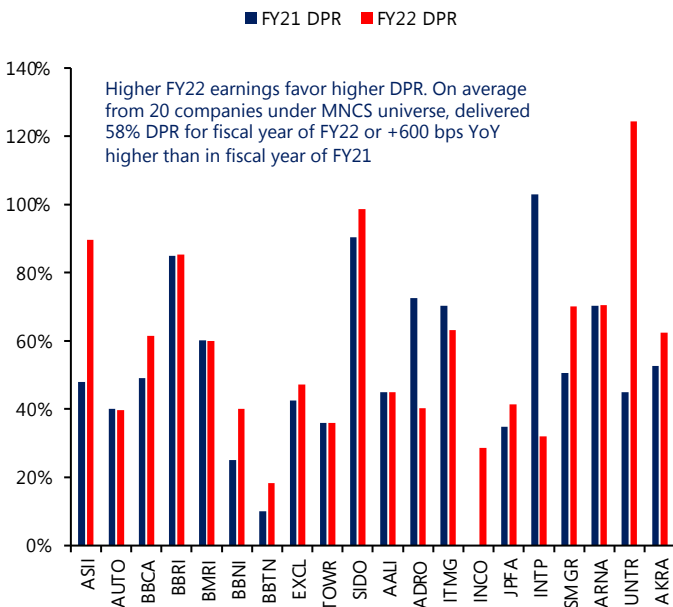
Notes : NAV in IDR tn & units in bn. Sources : OJK, MNCS Research

Exhibit 06. Jumbo IPO accommodated but failed to take off



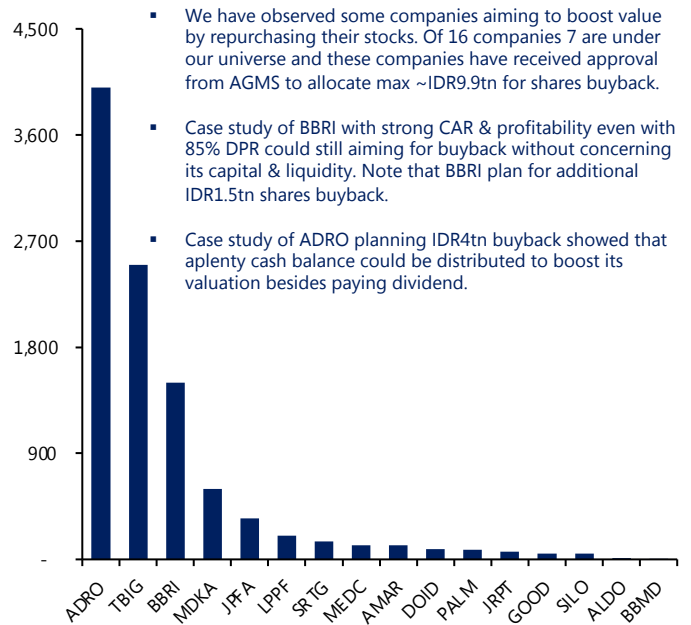
Notes : values in IDR bn. Sources : IDX, MNCS Research

Exhibit 07. Impressive earnings support for higher DPR



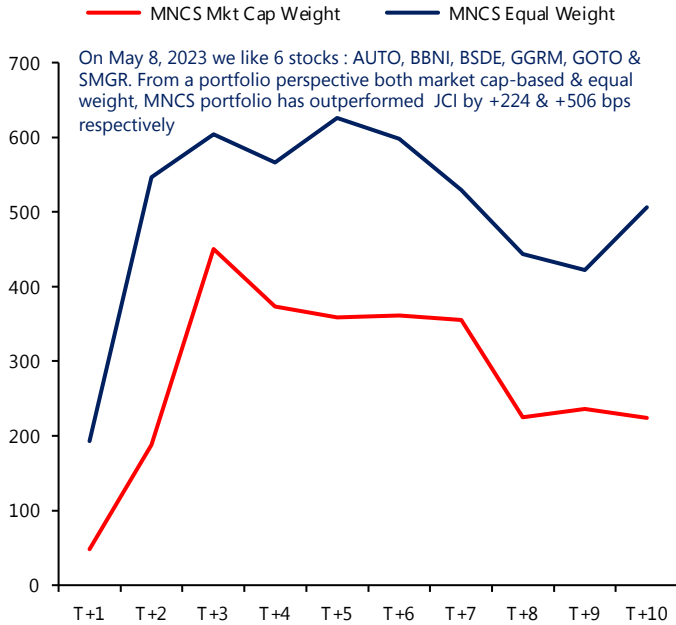
Sources : IDX Fillings, MNCS Research

Exhibit 08. Another way to boost value : stock buyback



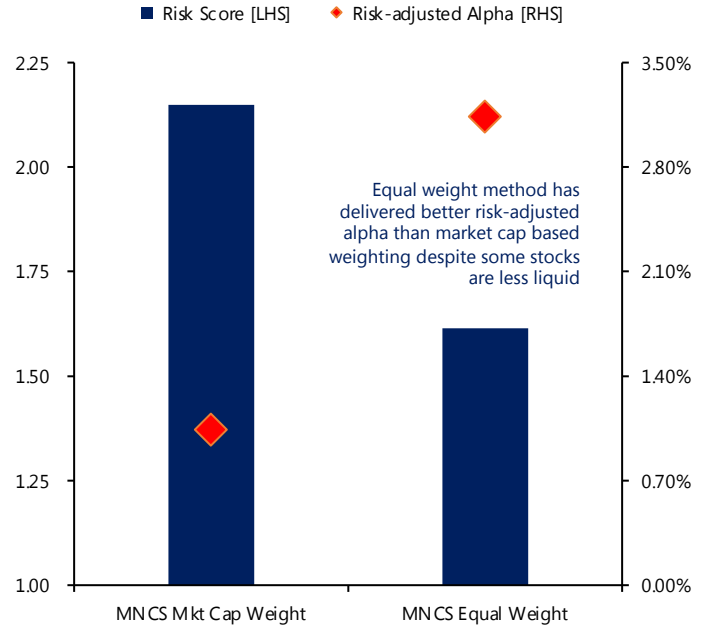
Notes : values in IDR bn. Sources : IDX Fillings, MNCS Research

Exhibit 09. MNCS stock picks outperformed market benchmark



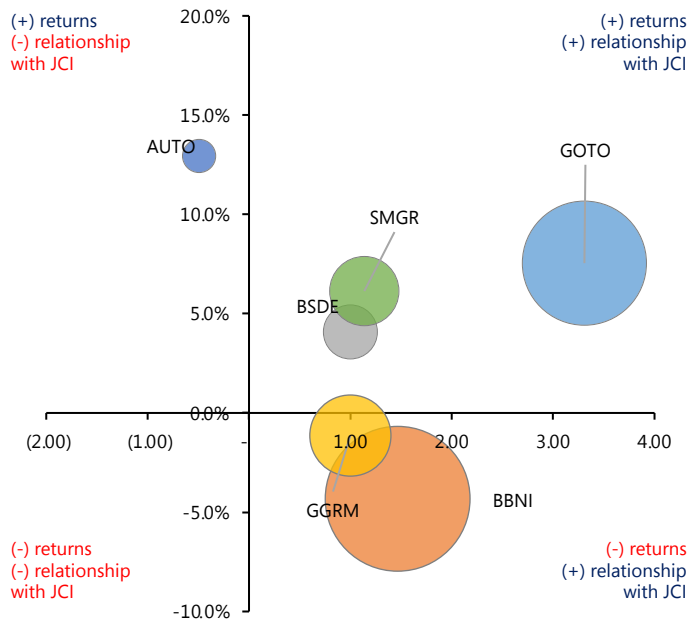
Notes : portfolio outperformance in bps. Sources : Bloomberg, MNCS Research

Exhibit 10. Market cap weight vs equal weight portfolio risk-return



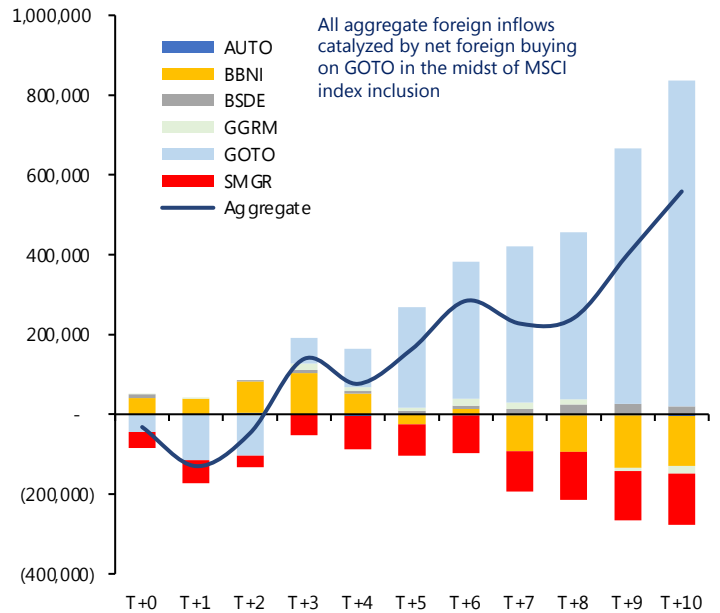
Sources : Bloomberg, MNCS Research

Exhibit 11. Outperformance thanks to risk-return framework



Notes : bubble size represents market cap. Sources : Bloomberg, MNCS Research

Exhibit 12. Foreign inflows to our stock pick



Notes : values in IDR bn. Sources : IDX Filings, 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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