TACTICAL NEUTRAL

Global Equity Market Indicators

Equity	-1Day (%)	YTD (%)
JCI	-0.82	-0.92
STI	-0.08	-8.11
KLCI	+0.35	-4.31
HSI	+0.50	+1.35
SSEC	-0.48	+7.94
KOSPI	N/A	+11.83
Nikkei	N/A	+11.74
FTSE	+0.98	+3.67
GDAX	+1.44	+13.74
DJI	+1.65	+1.62
S&P 500	+1.85	+8.16
NDX	+2.25	+17.80

Domestic Sectoral Equity Indices

Equity	-1 Day	YTD
Energy	-1.62	-14.27
Basic	-2.18	-8.33
Industrial	-2.29	-2.47
Non-Cyc	-0.22	+2.44
Cyclicals	-0.06	-4.05
Health	-1.16	-5.07
Financials	+0.23	+2.60
Property	-0.07	-1.09
Techno	-1.04	-5.58
Infra	-0.53	-5.86
Transport	+0.30	+8.89

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Holding equity seems to be riskier now, despite aggregate earnings jumped beating our estimates

1Q23 earnings slightly above our estimate

51 out of 57 (89.5% of MNCS universe that constituted ~60.7% JCI) have reported an aggregate earnings jumped by +26.5% in 1Q23 equivalent to 28% run rate of FY23E aggregate net profit. We observed that 3 sectors in our coverage (property, banking and basic industry) posted an in-line bottom line with our estimates (23.5-27.5% of run rate). Sectors that booked 1Q23 earnings above our expectation were consumers, metal and mining, heavy equipment, automotive and coal mining. These sectors' earnings cumulatively build up 36.6% FY23E net profit run rate. Whereas for telco, toll road and utilities, cement, retail, healthcare, agriculture and poultry were below our projection.

Top-line expanded but margin squeezed in non-bank public companies under our coverage

Our non-bank coverages (42 companies constituting 29.0% JCI weight) booked an aggregate revenue of IDR460tn (+12.5% YoY) in 1Q23. EBITDA grew +4.9% YoY, yet, unfortunately EBITDA margin shrank by -160 bps YoY at the same time. This may also reflect higher input cost as inflation increased along with other fiscal policy. Our notes on revenue and EBITDA as well as EBITDA margin in 1Q23 for each sector are summarized below :

- **Automotive :** both revenue and EBITDA were reported growing at the pace of +15.0% YoY and +16.5% YoY. EBITDA margin improved by +20 bps YoY. Despite having modest revenue growth, AUTO's EBITDA/EBITDA margin grew substantially (+93.3% YoY/+350 bps YoY) due to cost leadership strategy, whereas ASII experienced a flattish EBITDA margin.
- **Telco :** this sector continued to report a modest growth of revenue and EBITDA (+3.6% YoY and +5.1% YoY respectively). EBITDA margin increased +80 bps YoY. MTEL growing EBITDA margin outperformed peers after consolidating its tower assets. TLKM and TBIG EBITDA margin was flattish whilst TOWR contracted.
- **Toll Road & Utilities :** revenue rose +17.8% YoY but EBITDA fell -3.3% YoY resulting in EBITDA margin contraction of -690 bps YoY. PGAS gross margin was flat amidst revenue increasing by +17.5% YoY and this led significant margin squeeze.
- **Consumers :** revenue grew modestly +8.6% YoY but EBITDA fell 4.0% YoY causing margin to drop by -250 bps YoY. Indeed consumer sector was sensitive to rising input cost. The biggest contributor for EBITDA margin squeeze was UNVR which saw declining revenue and higher OpEx.
- **Healthcare :** both revenue and EBITDA grew at the pace of +13.0% YoY, EBITDA margin was flattish. SILO and HEAL revenue still growing even after Covid-19 related measures were lifted off by government. However, MIKA's revenue and EBITDA declined with the rate of -9.1% YoY and -13.5% YoY respectively.
- **Retail :** top-line and EBITDA expanded +27.4% YoY and +18.8% YoY respectively, but EBITDA margin shrank by -70 bps YoY, nearly all retailers except for RALS booked EBITDA margin squeeze.
- **Construction :** revenue dropped -12.1% YoY and EBITDA turned negative, this sector despite obtaining several new contracts but remain burdened by high gearing ratio.
- **Agriculture :** revenue/EBITDA/EBITDA margin contracted -12.9% YoY/-44.4% YoY/-730 bps YoY. AALI as the largest in size saw revenue from each product fell due to falling CPO price and accompanied by EBITDA decline. This has triggered the aggregate EBITDA margin to fall.
- **Coal Mining :** coal prices still increasing compared to 1Q22 but declining from 4Q22, this justified revenue (+46.1% YoY). EBITDA fell -6.2% YoY and EBITDA margin squeezed -18pp. This was largely driven by jumping royalty cost incurred by PTBA. Unlike PTBA, ADRO still posted revenue and EBITDA growth but in-terms of margin both fell significantly.
- **Metal Mining :** nickel price dropped in 1Q23, but ANTM and INCO revenue jumped at a pace of double digit. Aggregate revenue in this sector expanded by +30.5% YoY and EBITDA growth has lagged behind its top-line (+25.0% YoY) resulting to -120 bps YoY decline in EBITDA margin.
- **Poultry :** revenue was flattish (-0.4% YoY) but EBITDA plunged -81.4% YoY and margins were deteriorated. Lower ASP and higher OpEx. Both JPFA and CPIN bottom line retreated and nearly erasing all the profit in the same period of last year.
- **Cigarette :** gradual ASP hike to offset the impact of rising tobacco excise duty continued. Aggregate revenue grew +2.2% YoY but EBITDA and margin improved substantially, increasing +67% YoY and +610 bps YoY. Besides ASP hike remained lagged behind the tobacco excise duty imposed, product mix and diversification helped margin to improve. Both GGRM and HMSP successfully managed to deliver higher GPM and OPM.
- **Basic Industry :** ARNA posted a decline in revenue and EBITDA by -11.3% and -15.7% respectively and thus causing EBITDA margin to contract by -150 bps YoY.
- **Heavy Equipment :** EBITDA margin was flattish in this sector as revenue and EBITDA grew in-line. AKRA reported EBITDA growth of +41.8% YoY in the last quarter, yet with nearly 9x in EBITDA value of UNTR compared to AKRA caused EBITDA margin to be flattish.

Sizeable banks earnings in 1Q23 mostly came from lower CoC

Banks in our coverage booked aggregate net income of IDR47.1tn (+30.8% YoY) in 1Q23 forming 26.1% FY23E net income run rate as well as contributing 48% of aggregate earnings. NII grew by +12.5% while NIM still expanding despite higher CoF. NIM expansion was the result of loan yield re-pricing and maintaining solid CASA franchise. PPOP growth of +14.0% YoY came from a manageable CIR and a sizeable profit mostly coming from lower provisioning expense as banks asset quality improved substantially. The aggregate loan growth of banks in our universe +9.0% YoY in 1Q23 with ARTO and BRIS hitting the highest loan growth of +20.2% and 76.5% on a YoY basis.

Technology : on the race for profit

We have seen tech sectors GTV and TPV contracted in 1Q23 compared to 4Q22 on the back of seasonality factors as well as cost-streamlining strategy taken by players. Overall take rate improved as a result of tariff adjustment and other monetization measures including product mix which also reflect aspiration to achieve profit. We further conducted analysis upon the progress of how this tech companies turning their loss into profit. We assessed several key metrics including ecosystem size, growth and portfolio, take rate, EBITDA and net income improvement and cash runway. We found out the most interesting part is the disparity in-terms of cash runway by which BUKA (not-rated) and BELI (not-rated) has a significant gap of liquidity. Our analysis showed that GOTO remains well positioned and more competitive on the race to achieve profit.

Our view on JCI movement

JCI yielded -0.92% year-to-date and traded at 6,543-6,972 (12.5-13.3x FY23E P/E or equal to 7.5-8.0% earnings yield). Albeit the earnings jumped and slightly above our estimates, JCI could not break the psychological level of 7,000 while the benchmark 10-year government bond yield consistently declining. This put the stock market in stark contrast to government bond. Theoretically, lower risk free rate should be followed by higher valuation for risky assets. However this is not the case for now. With earnings yield of 7.5-8.0% meaning that JCI offer yield premium of ~100 bps to 10-year government bond yield. Higher yield demanded by markets may not only to compensate the stemming risk of decelerating EPS growth as well as margin contraction but more than that, in our view this is also influenced by yield curve structure that flatten. Before the event of interest rate hikes the spread between 10 year and 1 year government bond yield was ~300 bps and now stood below 100 bps. We found there is a statistically significant negative relationship between the yield curve and JCI valuation. This is make sense in our view, as the 1 year government bond offered 6% yield even more attractive than deposit rate. We maintain neutral on JCI tactically. Our assumption if 10-year yield traded at 6.25-6.50% and 10 year – 1 year spread <100bps could disincentivize to hold equity. With higher than expected EPS possible, we expect JCI to be traded at 6,667-7,097 or yielding 7.75-8.25%.

Stocks we like and key catalysts

We like BBNI for its undemanding valuation as the stock price traded at 1.1x FY23E P/B and with the earning yield of 12.3% higher than broad based market index earnings yield. For stocks that recorded a significant improvement in EBITDA margin coupled with undemanding valuation include AUTO and BSDE. These stocks offer +470 and +910 bps higher earnings yield than JCI and EBITDA margin improved +350 and +580 bps respectively. We like GGRM for margin improvement, undemanding valuation as well as low volatility. GGRM beta was lower than average MNCS universe stock beta. SMGR is also in our watch given lower fuel and coal price could help margin to improve as we have already seen in 1Q23, despite lower earnings yield. We also like GOTO for their solid improvement to achieve profitability as well as potential inclusion on MSCI index.

Exhibit 01. Stocks in Our Watchlist

Stocks	Sector	Last Price	FY23E P/E	FY23E Earnings Yield	Spread to JCI Yield	Spread to ID 10-yr Yield	Weight
AUTO	Automotive	1,815	5.8	17.2%	9.1%	10.8%	0.07%
BBNI	Banking	9,250	8.1	12.3%	4.2%	5.9%	2.57%
BSDE	Property	1,105	7.8	12.8%	4.7%	6.4%	3.06%
GGRM	Cigarette	28,525	7.9	12.6%	4.5%	6.2%	0.31%
GOTO	Technology	106	N/A	N/A	N/A	N/A	0.33%
SMGR	Cement	5,700	15.79	6.3%	-1.8%	-0.1%	0.71%

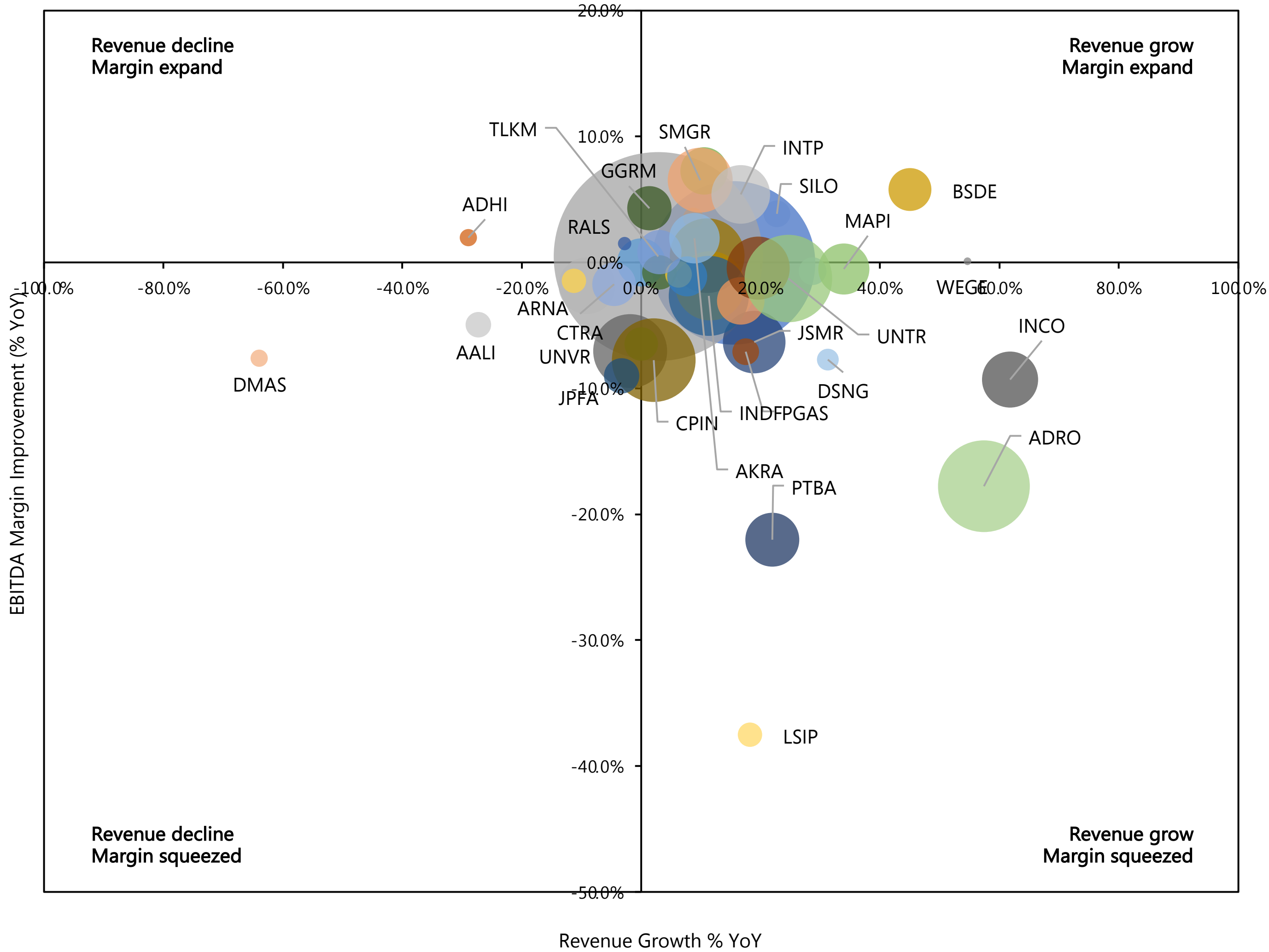
Sources : Bloomberg, MNCS Research

Exhibit 02. Aggregate earnings in our coverage jumped 26.5% YoY in 1Q23 forming 28.0% FY23E earnings run rate

By Sectors	1Q23	YoY	Weight	FY23E EPS	Market Cap	Run Rate	Earnings Yield
Automotive	**9,152**	**29.2%**	**4.58%**	**583**	**257,787**	**34.6%**	**10.2%**
ASII	8,719	27.1%	4.51%	615	249,075	35.0%	10.0%
AUTO	433	92.1%	0.07%	312	8,712	28.9%	17.2%
Banking	**47,090**	**30.8%**	**29.10%**	**391**	**2,686,010**	**26.1%**	**6.7%**
BBCA	11,530	43.0%	9.30%	379	1,109,520	24.7%	4.2%
BBRI	15,502	27.4%	9.23%	382	791,901	26.8%	7.3%
BMRI	12,560	25.2%	7.14%	488	484,018	27.6%	9.4%
BBNI	5,221	31.8%	2.57%	1,138	172,513	24.6%	12.3%
BBTN	801	3.5%	0.26%	241	17,117	23.7%	19.8%
BRIS	1,458	47.6%	0.29%	118	80,728	26.7%	6.7%
ARTO	18	-5.3%	0.31%	7	30,215	19.4%	0.3%
Telco	**8,009**	**2.1%**	**8.94%**	**145**	**567,655**	**21.6%**	**6.5%**
TLKM	6,424	5.0%	7.36%	285	412,830	22.7%	6.8%
TOWR	752	-11.8%	0.81%	82	51,510	17.9%	8.2%
TBIG	332	-20.1%	0.39%	93	46,535	15.8%	4.5%
MTEL	501	9.1%	0.38%	30	56,780	20.2%	4.4%
Technology	**(3,862)**	**-40.3%**	**3.06%**	**(13)**	**125,504**	**25.1%**	**N/A**
GOTO	(3,862)	-40.3%	3.06%	(13)	125,504	25.1%	N/A
Toll Road & Utilities	**1,801**	**-13.7%**	**0.66%**	**289**	**57,390**	**19.8%**	**15.9%**
JSMR	498	26.7%	0.12%	461	24,236	14.8%	13.9%
PGAS	1,304	-23.0%	0.54%	237	33,154	22.7%	17.3%
Consumers	**9,509**	**43.8%**	**3.14%**	**243**	**378,206**	**44.2%**	**5.7%**
UNVR	1,405	-30.5%	0.92%	144	171,518	25.5%	3.2%
ICBP	3,954	103.7%	0.94%	553	123,728	61.1%	5.2%
INDF	3,850	63.3%	1.08%	949	58,960	46.1%	14.2%
SIDO	300	1.8%	0.20%	40	24,000	25.2%	5.0%
Healthcare	**589**	**22.8%**	**1.04%**	**73**	**78,346**	**19.2%**	**3.9%**
SILO	250	151.4%	0.12%	59	21,385	32.5%	3.6%
HEAL	109	-2.1%	0.38%	72	20,325	10.1%	5.3%
MIKA	231	-14.4%	0.54%	86	36,636	18.9%	3.3%
Retail	**829**	**-22.0%**	**0.72%**	**74**	**44,171**	**19.7%**	**9.5%**
ACES	158	3.2%	0.12%	39	8,118	23.6%	8.3%
ERAA	236	-20.2%	0.13%	72	7,296	20.5%	15.7%
MAPI	405	-30.6%	0.44%	118	24,319	20.6%	8.1%
RALS	30	0.7%	0.03%	60	4,438	7.1%	9.6%
Construction	**(356)**	**-55.1%**	**0.11%**	**(75)**	**10,349**	**10.2%**	**N/A**
ADHI	8	18.8%	0.05%	68	3,293	1.5%	17.2%
WSKT	(375)	-54.9%	0.05%	(156)	5,818	8.3%	N/A
WEGE	10	-65.6%	0.01%	45	1,238	2.4%	34.9%
Property	**2,338**	**33.1%**	**1.14%**	**56**	**82,622**	**27.3%**	**10.3%**
BSDE	884	154.1%	0.31%	142	23,426	29.4%	12.8%
PWON	595	60.7%	0.27%	38	22,847	32.2%	8.1%
SMRA	272	55.3%	0.19%	38	9,570	43.8%	6.5%
CTRA	431	-8.9%	0.32%	100	18,778	23.4%	9.8%
DMAS	155	-60.1%	0.05%	26	8,001	12.6%	15.4%
Agriculture	**550**	**-44.6%**	**0.29%**	**185**	**27,414**	**15.5%**	**13.0%**
AALI	225	-53.5%	0.11%	774	14,250	15.3%	10.3%
LSIP	112	-63.2%	0.10%	139	6,698	11.9%	14.1%
DSNG	214	4.4%	0.08%	108	6,466	18.6%	17.7%
Coal Mining	**8,102**	**1.4%**	**1.91%**	**660**	**127,920**	**28.2%**	**22.4%**
ADRO	6,939	21.4%	1.42%	660	89,280	32.8%	23.7%
PTBA	1,163	-48.9%	0.49%	658	38,640	15.4%	19.6%
Metal Mining	**3,150**	**29.5%**	**1.20%**	**215**	**118,260**	**43.3%**	**6.2%**
ANTM	1,663	13.5%	0.67%	164	48,960	42.4%	8.0%
INCO	1,487	53.9%	0.53%	339	69,300	44.4%	4.8%
Poultry	**(9)**	**-100.5%**	**1.39%**	**169**	**91,251**	**-0.2%**	**5.2%**
CPIN	241	-79.8%	1.18%	189	78,556	7.8%	4.0%
JPFA	(250)	-141.4%	0.21%	142	12,695	-15.1%	13.0%
Cigarette	**4,124**	**37.8%**	**0.66%**	**126**	**170,198**	**27.7%**	**8.7%**
GGRM	1,964	82.3%	0.33%	3,608	54,198	28.6%	12.6%
HMSP	2,160	12.8%	0.33%	69	116,000	26.9%	6.9%
Cement	**933**	**35.6%**	**1.29%**	**450**	**75,760**	**19.8%**	**6.2%**
SMGR	562	11.1%	0.71%	361	38,760	22.9%	6.3%
INTP	371	103.4%	0.58%	613	37,000	16.4%	6.1%
Basic Industry	**145**	**-14.8%**	**0.10%**	**86**	**6,716**	**23.2%**	**9.3%**
ARNA	145	-14.8%	0.10%	86	6,716	23.2%	9.3%
Heavy Equipment	**5,931**	**24.9%**	**1.72%**	**589**	**119,606**	**42.3%**	**11.7%**
AKRA	607	41.9%	0.43%	141	30,251	21.4%	9.4%
UNTR	5,323	23.2%	1.29%	3,020	89,355	47.6%	12.5%

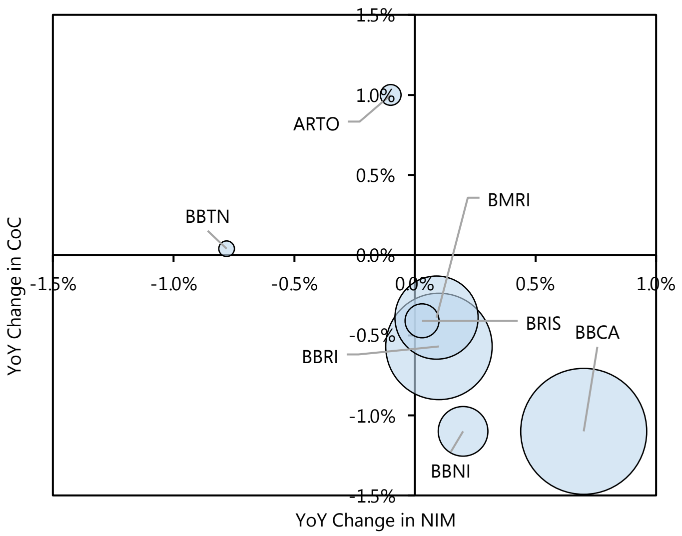
Notes : all values in IDR bn except for EPS in IDR/share. Sources : Conpany Data, Bloomberg, MNCS Research

Exhibit 03. Despite revenue and EBITDA still growing but margin squeezed



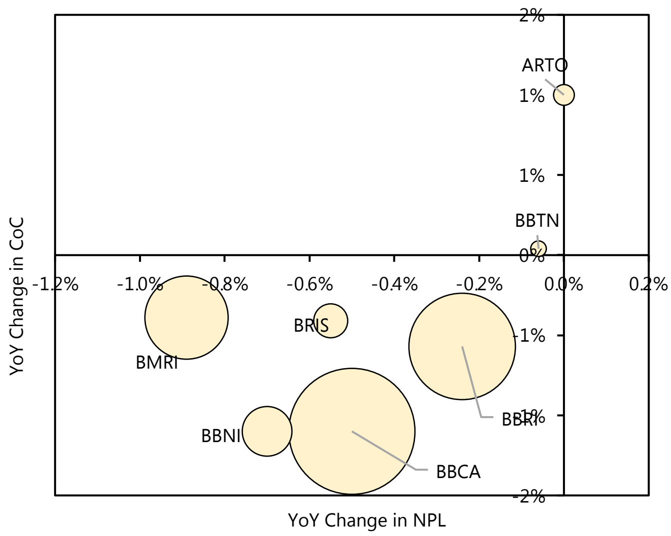
Notes : bubble size represents weight of the stock on JCI. Sources : Companies, Bloomberg, MNCS Research

Exhibit 04. Banking NIM improved & CoC lowered



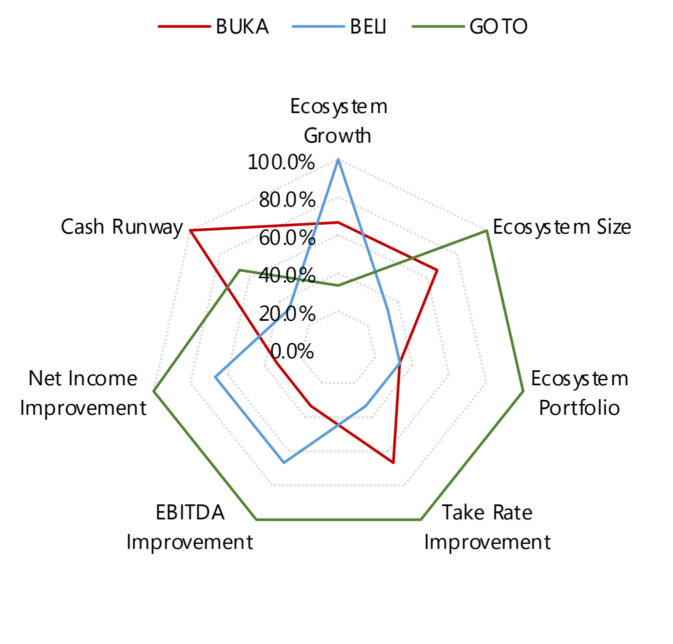
Notes : bubble size represent mkt cap. Sources : Companies, MNCS Research

Exhibit 05. Banking lower CoC as asset quality improved



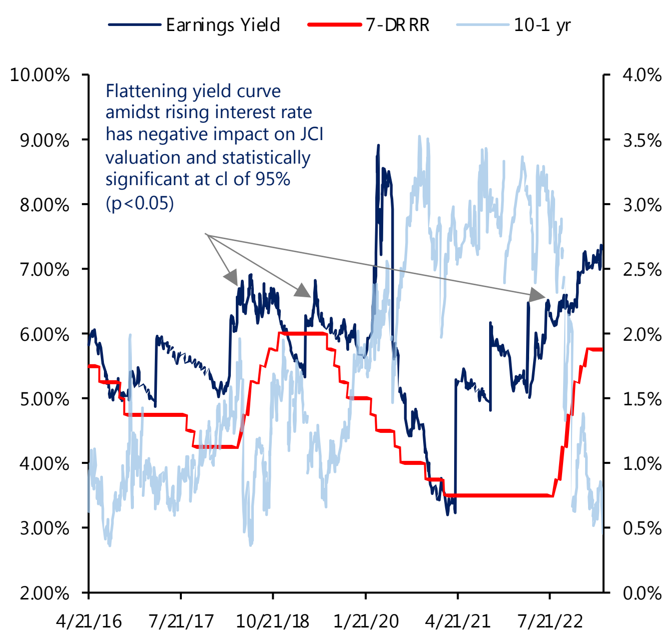
Notes : bubble size represent mkt cap. Sources : Companies, MNCS

Exhibit 06. GOTO lead the tech race for profit



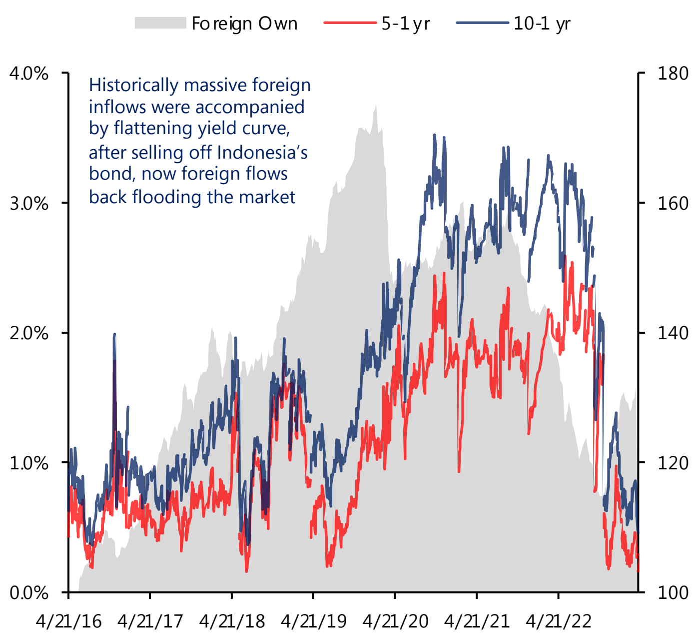
Notes : using relative scoring Sources : Companies, MNCS Research

Exhibit 07. Flattened YC has negative relationship to JCI valuation



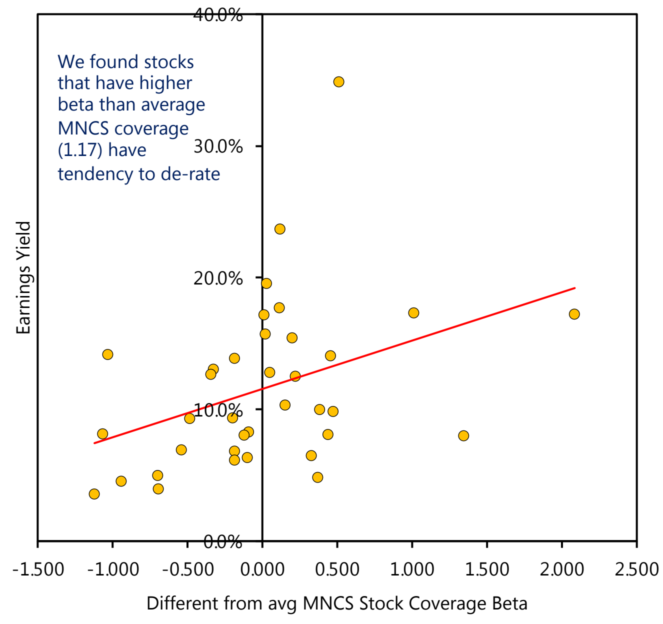
Sources : Bloomberg, MNCS Research

Exhibit 08. Sizeable inflows to bond market and YC flattening



Sources : Bloomberg, MNCS Research

Exhibit 09. Higher volatility means higher risk of derating



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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