

January 10, 2023



Research Center

Morning KISI/

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Equity Strategy

Riding the rising interest rate tide

Resilient 2022 provides fundamental ground entering 2023

JCI's remarkable resiliency in 2022 (with +4.1% performance, one of the few indices in the green) was supported by energy and industrial sectors offsetting huge declines in technology-related stocks (incl. digital banks); inline with 9M22 earnings results shown in Fig 3 & 4. Fundamentally, global energy shocks in 2022 benefitted Indonesia tremendously, which managed to trim its forex debt to below 30% of GDP (a level last seen in early 2014), providing a good base entering 2023. However, the diminishing gap between ID 10-year bond & UST 10-year real yield left Bank Indonesia (BI) with no room for rate maneuvering to balance between maintaining GDP growth and defending IDR (against USD). Therefore, we believe that BI would match Fed's interest rate move in 2023 (i.e. another 50-75bps hike) and maintain USD/IDR exchange rate at 15,750 on average.

Key theme 1: Input (& transport) costs normalization for goods

Much lower CPO & wheat prices and stabilizing oil prices at ~USD80/bbl should keep inflation in check within BI's inflation target corridor of 3%±1% in 2023. In this case, consumer staples companies (i.e. **MYOR**) with sizable export businesses should see a significant recovery in profit from margin improvement & better export sales.

Key theme 2: Rapid recovery in activities supported local demand

As social activities restrictions (PPKM) were removed starting 1Jan2023, we expect community mobilization and activities to either revert or surpass the pre-pandemic level. This translates to more traffic for transportation companies (i.e. **BIRD**, which saw a record high Dec2022 numbers), customers' data usage (benefitting **TLKM**), etc. Subsequently, corporates' and MSMEs' business activities should pick up and boost financing demand from quality SOE banks (i.e. **BBNI**, **BMRI**, **BRI**) with ample liquidities to boot.

Key theme 3: Coal tailwind & progress towards renewables and environmentally friendly products.

Coal miners enjoyed a record-breaking year given sustained high coal prices throughout 2022. Considering the downside risk on coal prices in the latter half of 2023, we believe that supporting businesses on coal such as mining contractors (**UNTR**) and tug & barge operators (**MBSS**, **TPMA**) would present a better play than the miners. Meanwhile, we also see pockets of investment opportunities in renewables (part of efforts to achieve net-zero emissions by 2060) and nickel assets (i.e. **ANTM**, **MDKA**) to support the government's lofty ambitions to be electric vehicles (EV) hub in Southeast Asia.

NEUTRAL on JCI Index – safety first

Despite a good fundamental and relatively solid expected GDP growth (at 4.9% in 2023), we see potential foreign outflow risk on Indonesia equity due to much significant expected GDP growth recovery in big markets such as China and India, which experienced massive foreign outflows in 2022. In addition, the historical performance of the last two pre-election years was not encouraging (i.e. negative performance & net foreign outflow). For our coverage universe, we expect a 6% EPS growth in 2023 (with earnings from financials and consumer staples offsetting the expected earnings decline from coal and CPO-related stocks). Thus, we expect JCI index fair value of 7,250 at the end of FY23, implying 18x FY23F PE or at its +0.5 std dev of its 5-year mean.

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Neutral

Index Target: 7,250 (end FY23)

JCI Index (Jan 9): 6,688

Company	Rating	TP (IDR)
ANTM	BUY	2,450 (+23%)
BBNI	BUY	10,300 (+15%)
BMRI	BUY	10,900 (+12%)
BIRD	BUY	2,330 (+67%)
MBSS	BUY	1,700 (+41%)
MDKA	BUY	5,750 (+30%)
MYOR	BUY	3,000 (+19%)
TLKM	BUY	4,900 (+29%)
TPMA	BUY	700 (+56%)
UNTR	BUY	40,000 (+62%)

JCI Index performance



Source: Bloomberg

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Market Commentary

Market Commentary

- JCI closed at flat on Monday, after swinging between gain and losses in a volatile trade despite upbeat lead from global peers.
- Asian market rose along with European shares driven by China's reopening trade and expectations of slower rate hikes.
- Sectoral wise, 6/11 sectors rose led by basic materials and healthcare, while energy and consumer cyclicals tanked.
- Blue chip shares ended mixed, BBCA IJ and TLKM IJ gained ~2% as investors turned defensive while ASII IJ, GOTO IJ, and BBRI IJ ended in the red.
- Coal shares remained under pressure on China's plan to ease Aussie coal ban and Europe's warmer winter. ADRO IJ -3.50%, ADMR IJ -5.45%.
- Metal miners rose as copper rallied to six-month high as China reopening aids metals, gold rose on the expectations of lower rate hikes and significant buying by central banks. MDKA IJ +3.50%, ANTM IJ +3.78%.
 - Top Gainers : BBCA (+1.81%), TLKM (+2.16%), MDKA (+3.50%)
 - Top Losers: BYAN (-1.22%), ASII (-1.83%), GOTO (-2.11%)

News

Macroeconomic, Sector and Corporate News

- IPO – PT. Hassana Boga Sejahtera, engages in complementary food, plans to raise IDR 61.2bn by issuing 510mn shares @ IDR 100-120/sh. Offering date: 26-31Jan2023. (Kontan)
- IPO – PT. Jasa Berdikari Logistics, engages in transportation and warehouse management, plans for IPO of up to 700mn shares (~32.6% of capital) @ IDR 100-150/sh. Offering date: 17-19Jan2023 (Kontan)
- TMAS – Allocates FY23 capex of IDR 1tn to bulk-up its fleets. (Kontan)
- CSAP – Plans to open 5 new Mitra10 stores in 2023, to bring its total to 50 Mitra10 stores. (Kontan)
- PEHA - Plans to launch 10 new products in 2023 (incl. branded and OTC drugs). (Kontan)
- PBRX – To do pre-emptive rights issue of max. 15bn shares (~232% of capital) @ IDR 50/shs. Cum rights date: 17Jan2023 (Investor daily)
- MGRO – Allocates IDR250bn capex for additional capacity & maintenance. (Kontan)

Outliers

Outlier Stocks

- Sharp Movers (Up) : ELIT (+34.8%), SINI (+24.9%), BPTR (+24.3%)
- Sharp Movers (Down) : AKSI (-6.9%), WSKT (-6.9%), OASA (-6.8%)

Macro Calendar

January 10, 2023

Mon	Tue	Wed	Thu	Fri
3	4	5	6	7
Korea > Market closed (National Foundation Day) September exports and imports (announced October 1) US> September ISM manufacturing PMI China> Market closed (National Day)	US> August durable goods (F) China> Market closed (National Day)	OPEC+ ministerial meeting Korea> September CPI US> September ISM services PMI MBA mortgage applications China> Market closed (National Day)	US> New jobless claims China> Market closed (National Day)	US> September non-farm payrolls September jobless rate China> Market closed (National Day) September FX reserves
10	11	12	13	14
Korea> Market closed (substitute holiday for Hangul Day) US> Market closed (Columbus Day) China> September Caixin services PMI (announced October 8) Japan> Market closed (Sports Day)	OECD leading economic index	The OPEC Monthly Oil Market Report Korea> MPC meeting US> FOMC minutes release MBA mortgage applications September PPI	Korea> Stock options expiry US> September CPI Initial jobless claims	Korea> September jobless rate US> September retail sales October Michigan Consumer Confidence (P) China> September PPI September CPI September exports and imports September trade balance
17	18	19	20	21
US> October manufacturing index (New York) China> September mining and manufacturing production September retail sales September fixed asset investment 3Q22 GDP Japan> August mining and manufacturing production (F)	US> September industrial production	US> Fed Beige Book release MBA mortgage applications September housing starts Europe> September CPI (F)	US> Initial jobless claims September existing home sales China> PBOC LPR release	Japan> September CPI
24	25	26	27	28
	US> October Conference Board Consumer Expectations Index	US> September new home sales	Korea> 3Q22 GDP (A) US> Initial jobless claims September durable goods orders (P) 3Q22 GDP (A) Europe> ECB MPC meeting	US> September PCE October Michigan Consumer Confidence (F) Japan> BoJ MPC meeting
31				
Korea> September mining and manufacturing production China> October manufacturing PMI October services PMI Europe> October CPI (P) Japan> September manufacturing production (P)				

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures

in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement