DEAR INVESTOR,

by Avrist Asset Management Team

FUND MANAGER'S LETTER
JANUARY 3RD WEEK, 2024

Economic & Bond Market
Inflows to Bond Continues

Bond market rebounded last week, despite higher US inflation print and hawkish commentary from the Fed. US inflation rose by 3.4% (YoY) in Dec 2023, from a five-month low of 3.1% (YoY) in Nov 2023. Raphael Bostic, a senior Fed member, raises concern on the inflation pace fluctuation shall the Fed cut rate too quickly. The Fed official also caution the impact of the ongoing conflict in the Middle East, in which currently has raised shipping cost due to disruptions in the Suez Canal and the Red Sea. Despite this hawkish comment, market expectation of the rate cut remains unfazed with over 60% probability expecting the first rate cut to be delivered in March 2024.

The yield on 10-year US Treasury retreated to 3.95% last week, after briefly touching 4% mark. In similar trend, Indonesia govt bond yield inched down to 6.64% from 6.70%. We see interest are tilted toward short end tenors, amidst rate cut prospect. On the fund flow, we see foreign investors interest in Indonesian government bond remain sound. As of Jan 10, 2024, foreign inflow into IDR govvies reached IDR 4.9 trillion MTD. Inflows from domestic investors also remain robust across sectors. Banking registered the most net buy, amounting to IDR 139.2 trillion MTD. Inflows from insurance and pension fund sector reached IDR 2.5 trillion MTD.

On the macro side, Indonesia amassed USD 36.9 billion of trade surplus in full year 2023. This marks the fourth consecutive years of surplus. On annual basis, trade surplus decreased by 32.2% from previous year due to moderating export growth. Export and import shrunk by 11.3% and 6.5% in 2023 respectively. Looking forward, we see export performance likely to continue its weakening trend due to sluggish global economic growth.In the newly published report, World Bank forecasted global economy to slow for third consecutive year in 2024 to 2.6%. China, the largest emerging economy, is projected to grow at a slower pace of 4.5% in 2024. This mark the weakest growth for China in over 30 years outside the pandemic years. Commodities exporters like Indonesia will likely see slower demand, hence export contribution to GDP would be limited. World Bank sees Indonesian economy to decelerate by 4.9% in 2024.

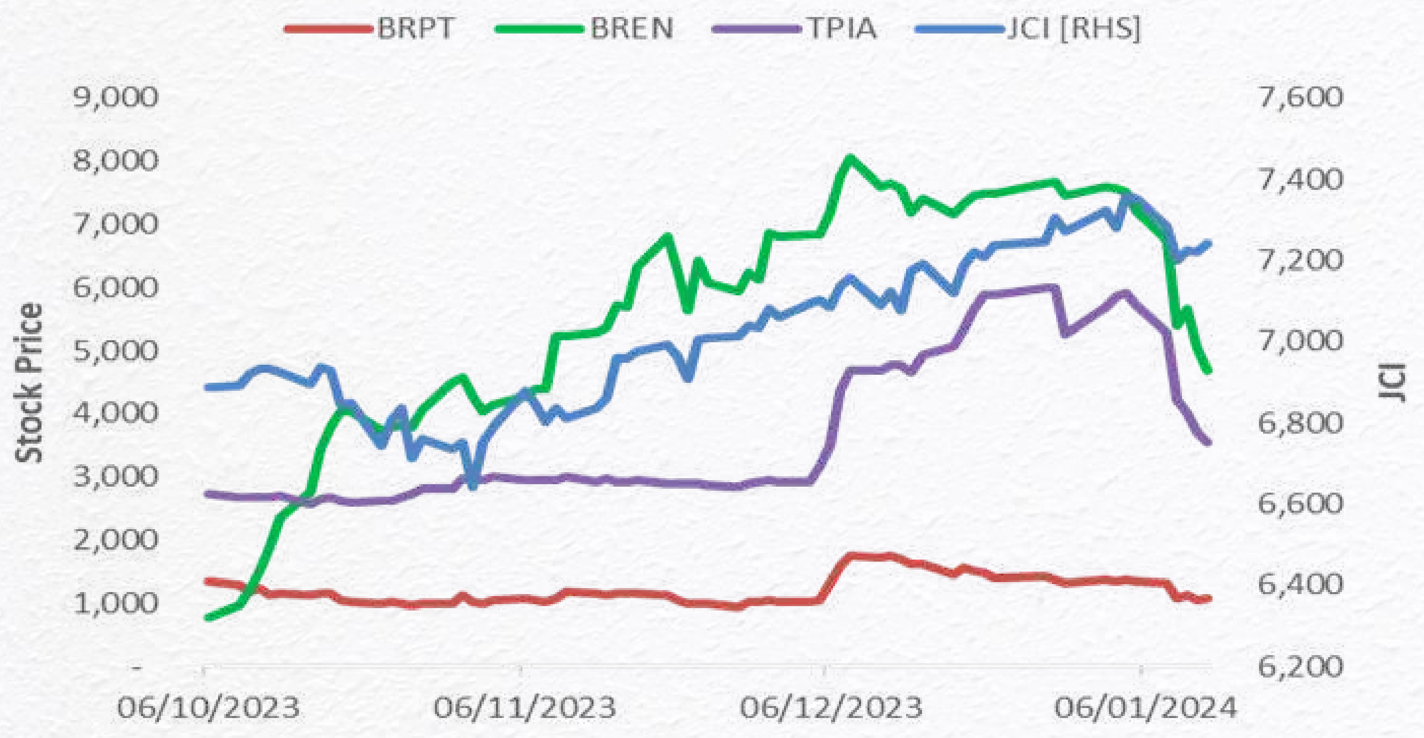
Equity
A Healthy Correction For JCI

JCI declined -1.5% (WoW) to 7.241 in the second week of January 2024. It had brought JCI's YTD performance to -0.4% as of 12 January 2024. The weakness in the second week of January 2024 was led by several sectors such as basic materials, infrastructure, consumer non-cyclicals, and transportation & logistic. The four sectors declined by -5.8%, -2.2%, -2.0%, -1.7% (WoW), respectively. If we look at the company level, some companies such as BREN, BRPT, TPIA, AMRT, and MDKA had big contributions in JCI weakness. The five companies declined by -35.0%, -21.1%, -37.8%, -5.4%, and -12.46% (WoW), respectively. We see that the weakness of JCI does not represent a significant fundamental change in Indonesia equity market. Rather we view it as a healthy correction due to a significant increase of price in the preceding periods especially on some companies.

We view that some stocks that have significant weighting in JCI are now trading at overvalued levels. Despite the companies having good businesses, but the stock prices are overvalued in our view. As example, PT Barito Renewables Energy Tbk (BREN), a geothermal company with installed capacity of around 886 MW as of 3Q23, had its stock price increased around +930% to IDR 8.050 per share in the two-month period since IPO in

October 2023 and was one of the main contributors to JCI's increase. The price represents P/E ratio of 716.8x, an expensive valuation compared to global peers that trade at 39.8x P/E in average, and compared to the closest peers in Indonesia like PGEO that trade at 21.7x P/E. So, the recent weakness in BREN's share price is justified in our view. Furthermore, other companies such BRPT and TPIA also showed weakness in share price after having increased +54.6% to IDR 1.755 per share and +123% to IDR 6.000 per share in the two-month period, and were at all time high levels. At those prices, BRPT traded at 522.2 x P/E and TPIA has a negative profitability based on Bloomberg estimate.

To conclude, investors need not be concerned on JCI's decline in the second week of January 2024. But we need to be cautious on companies trading at overvalued prices. We believe that we should focus on investing in companies with good fundamental and reasonable valuation.



JCI impacted by the price decline of some companies like BREN, BRPT, and TPIA | Source: Bloomberg

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