AT A CROSSROADS

Avrist Asset Management Team

MARKET AND PRODUCT UPDATES
AUGUST 2023

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Asset Management

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Macroeconomic Outlook

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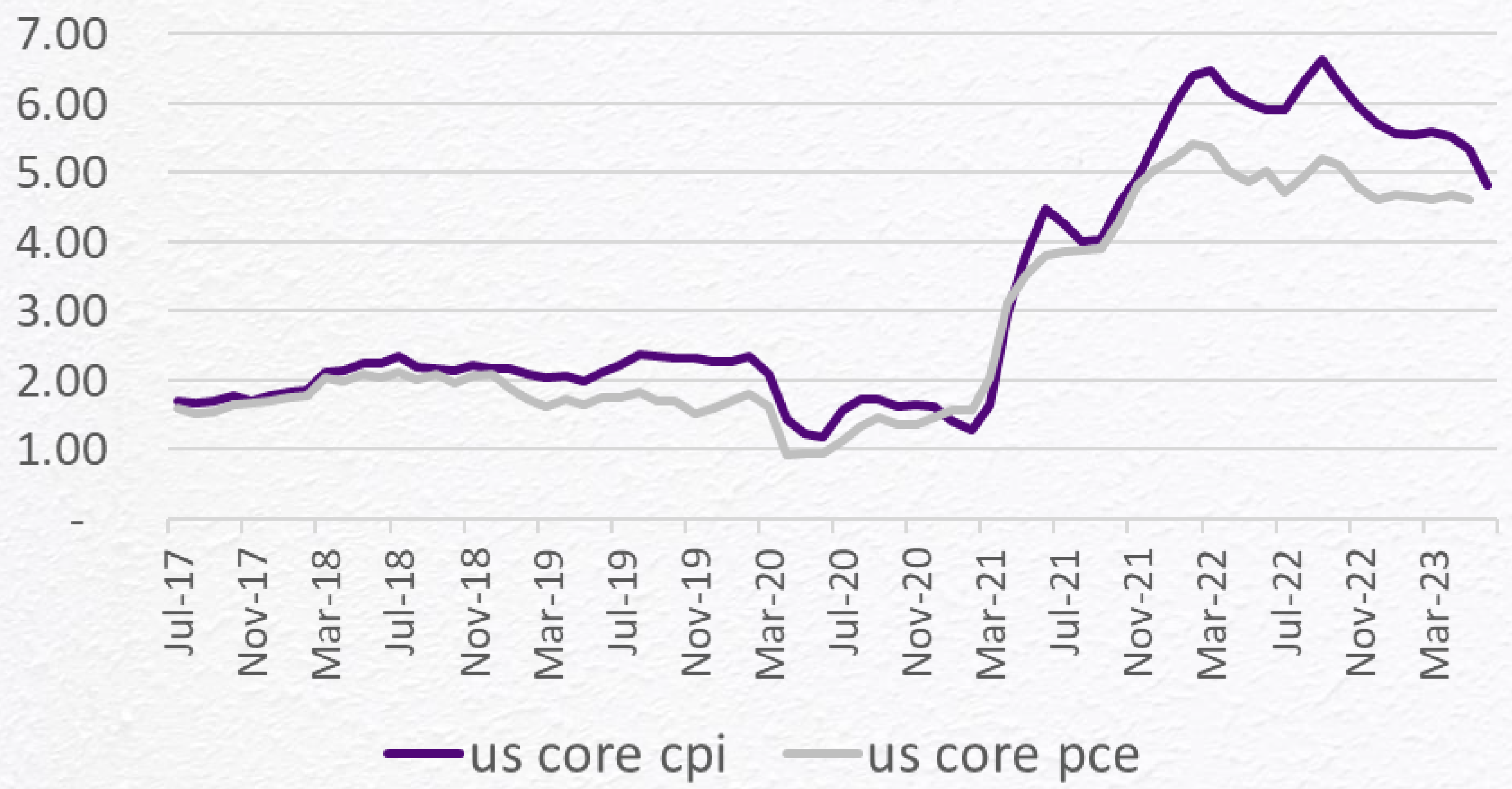
Global Backdrop:
US Core Inflation is Down, But Not Down Enough

- At 4.8% yoy (June) and 4.6% yoy (May), US Core CPI and Core PCE are still quite far from The Fed's target of 2%, although the monthly trend is encouraging for Core CPI (0.18% mom).
- Wage-sensitive service categories were still posting relatively high inflation, such as car repair (1.3% mom) and physician (0.7% mom).
- Average hourly earnings accelerated to 0.4% mom from 0.3% in the prior month. The yoy rate was still 4.4%.

US Core CPI and Core PCE YoY



US Average Hourly Earnings YoY

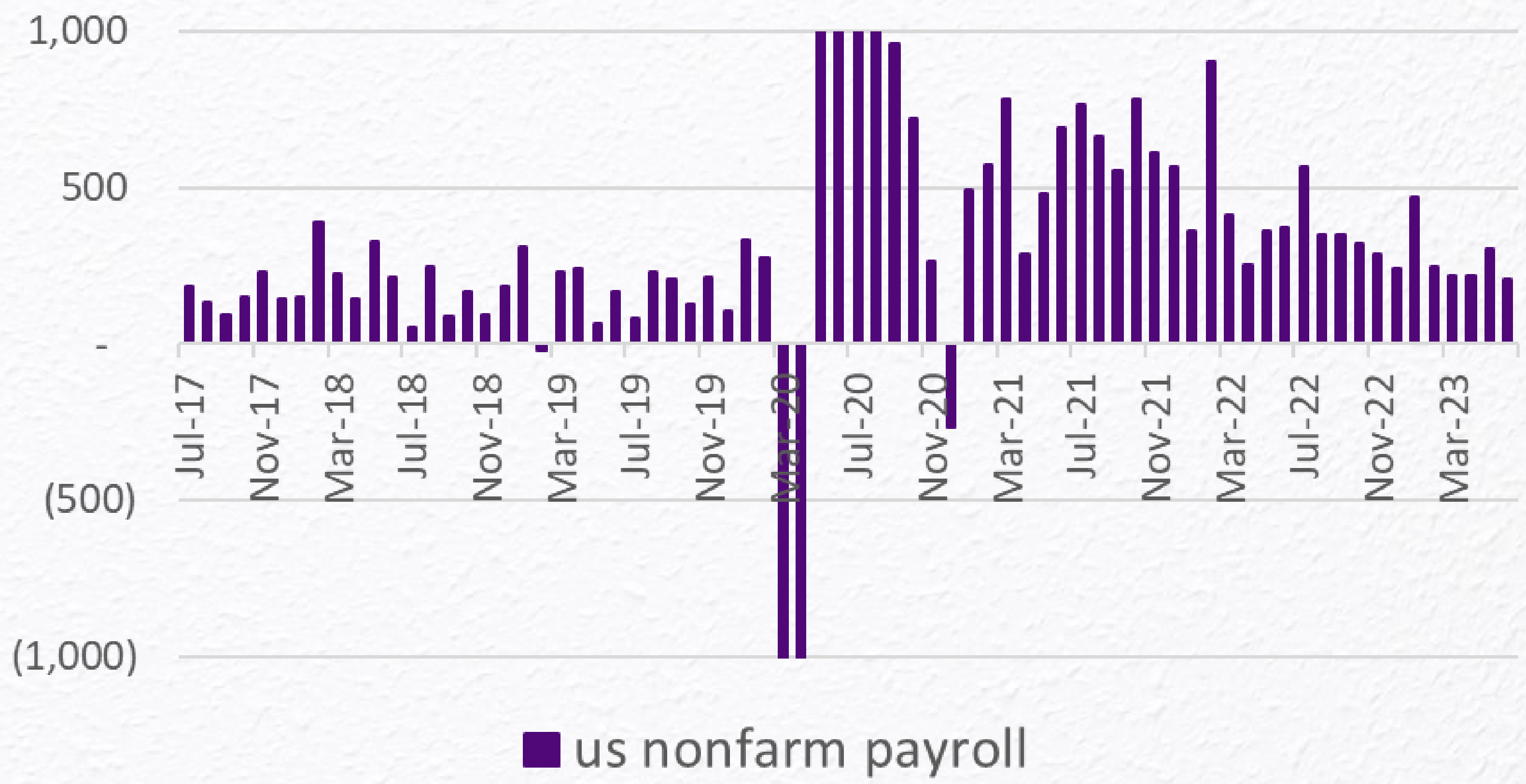
Source: Bloomberg

The Labor Market Is Still Too Tight

- At 3.6% unemployment rate, we view that it is hard to argue that the US labor market is weakening and that wages will start to trend down.
- Monthly non-farm payroll also still show job gains of 200-300 thousand per month, above pre-pandemic average of 100-200 thousand.

US Unemployment Rate

US Nonfarm Payroll



Source: Bloomberg

US Government Yield Curve Still Inverted

- Yield curve inversion between 2 and 10 year is at its highest in recent years, with the 2 year yield being 107 bps higher than the 10 year.
- This is viewed by many as indicator of recession to come, we tend to agree though we caution that strength in labor market may mean that 2 year yield may stay relatively high and require more job losses in the real economy.

US 2 year yield and 10 year yield

US 2-10s spread

Source: Bloomberg, Federal Reserves

Things Get Complicated If Commodities Continue Its Rebound

- Bloomberg commodities index looks to have bottomed. If the rebound in the past month continues, headline inflation may start picking up again.
- Meanwhile markets have largely price-in rate cuts in 2024 across most major central banks.

Bloomberg Commodities Index

Consensus Central Banks Rate

US FFR Consensus		BOE Rate Consensus		China Loan Prime Rate 1 Yr, (	
2Q23	5.25	2Q23	5.00	2Q23	3.55
3Q23	5.50	3Q23	5.55	3Q23	4.30
4Q23	5.50	4Q23	5.65	4Q23	4.30
1Q24	5.25	1Q24	5.60	1Q24	4.25
2Q24	4.80	2Q24	5.30	2Q24	4.25
3Q24	4.35	3Q24	5.00	3Q24	4.25
4Q24	3.95	4Q24	4.70	4Q24	4.25

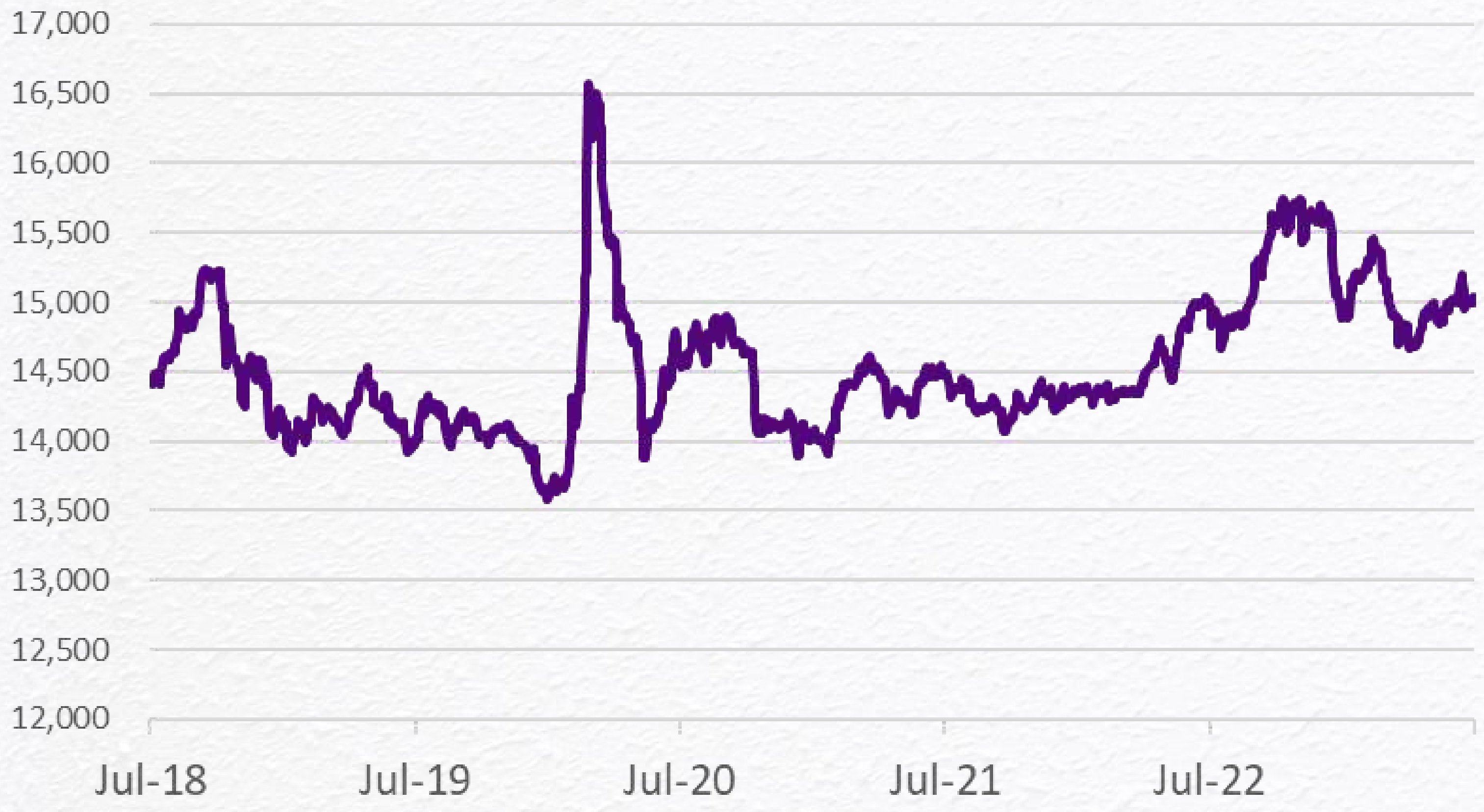
ECB Rate Consensus		BOJ Rate Consensus	
2Q23	4.00	2Q23	-0.10
3Q23	4.25	3Q23	0.00
4Q23	4.25	4Q23	0.00
1Q24	4.25	1Q24	0.00
2Q24	4.25	2Q24	0.00
3Q24	4.00	3Q24	0.00
4Q24	3.63	4Q24	0.00

Source: Bloomberg

IDR has been relatively strong and Indonesian CDS Is Down

- Rupiah has been outperforming this year on the back of better than expected inflation trend
- Indonesian macro risks perception is softening as seen in lower CDS

USDIDR



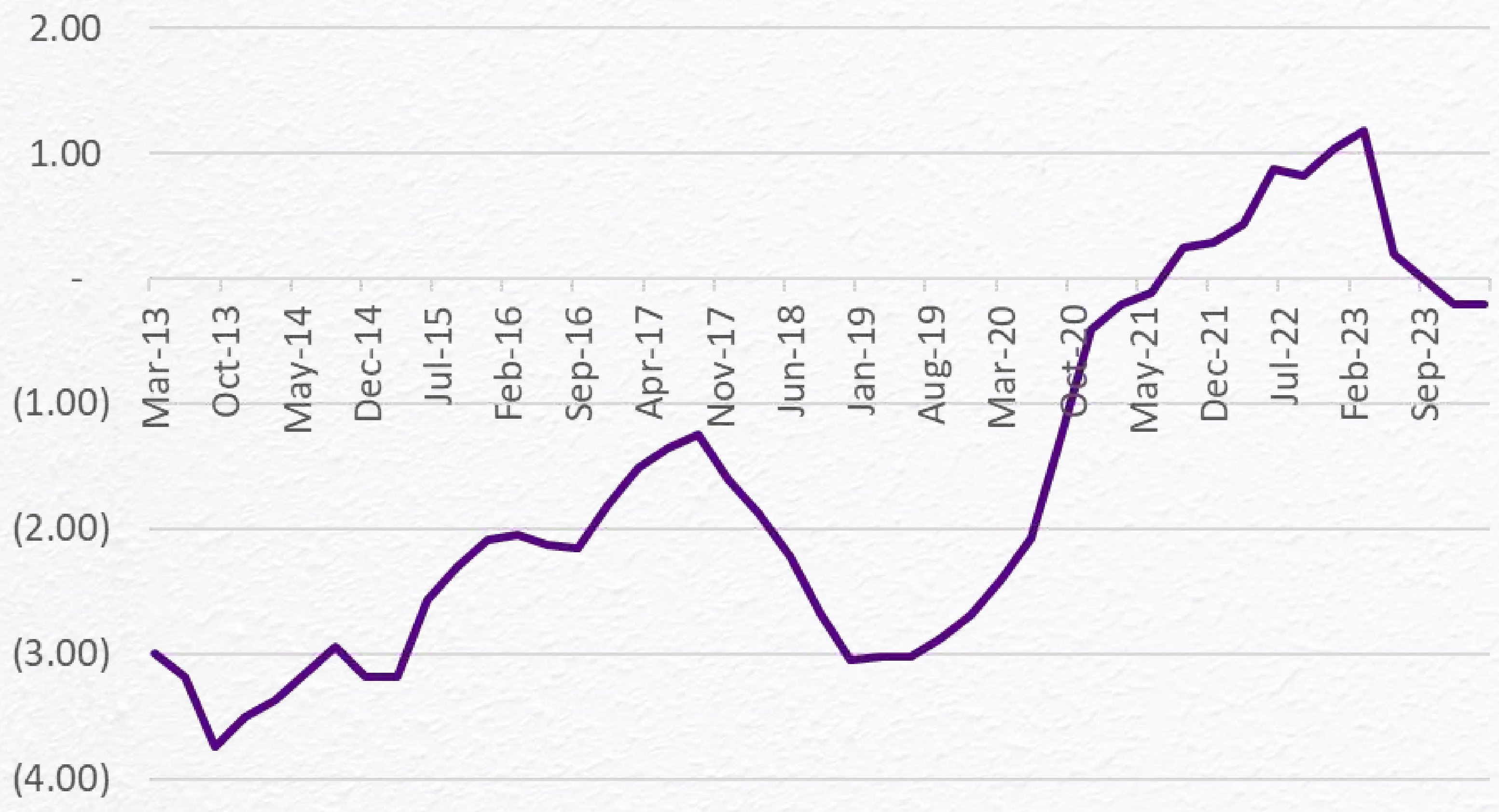
Indonesia 5 Yr CDS

Source: Bloomberg

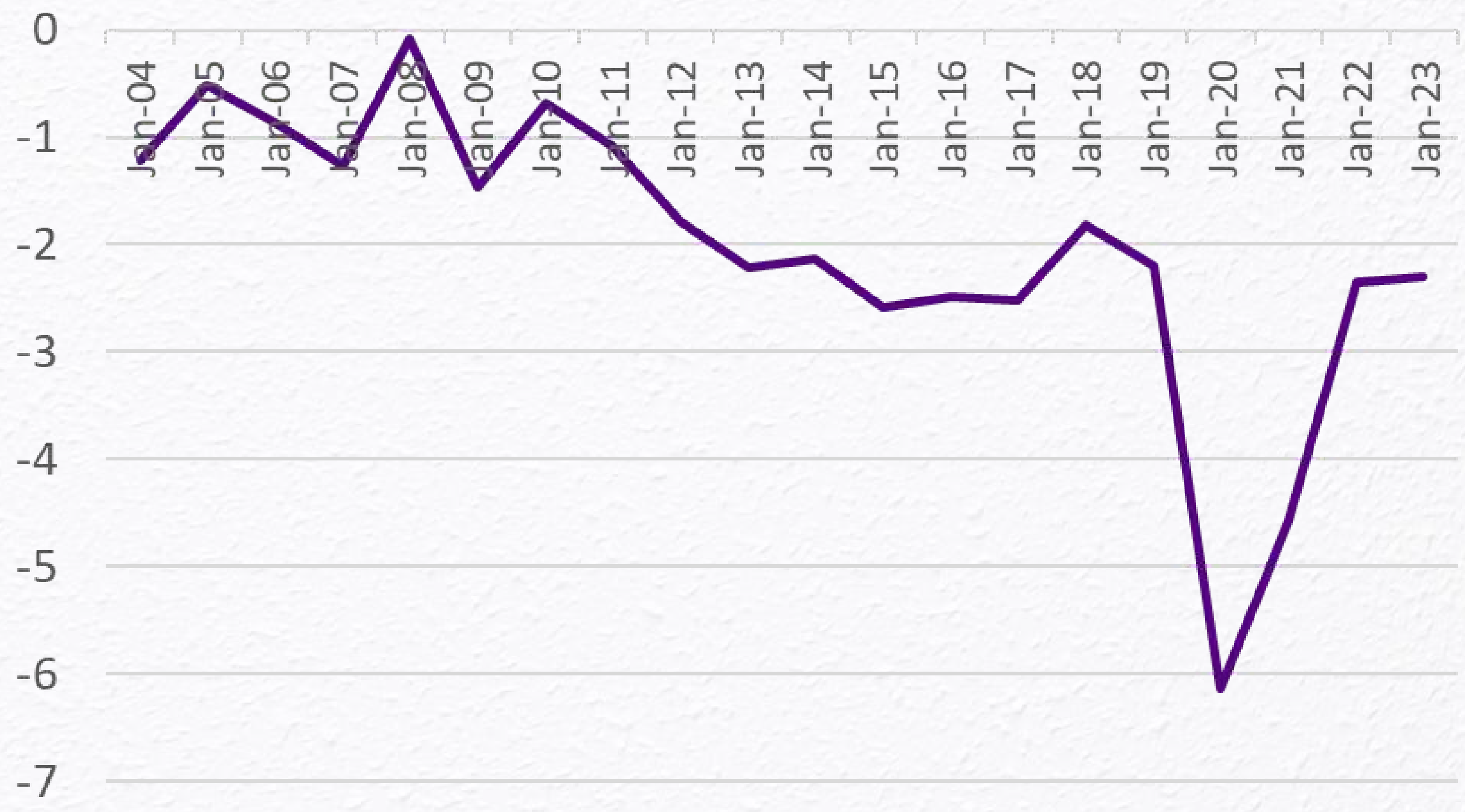
Indonesian Current Account and Fiscal Deficit Is Benign

- Current Account may turn to deficit this year but it will likely be small
- Fiscal deficit target in 2023 has been revised down

Current Account Surplus (Deficit) % to GDP,Actual and Consensus



Fiscal Balance % of GDP, Actual and Consensus



Source: Bloomberg

Backdrops Summary : The Market Is At A Crossroads Between All-Clear Bull Scenario (Global Inflation and Rates Down) and Realization That Further Monetary Tightening Is Needed

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Investment Implications :

- Maintain asset-class diversification
- Hedge against upside risks in US inflation by owning some commodities exposure
- Hedge against downside risks in Indonesian consumption by owning big banks and resilient middle-up consumer names

Source: Bloomberg

Bonds Market Outlook

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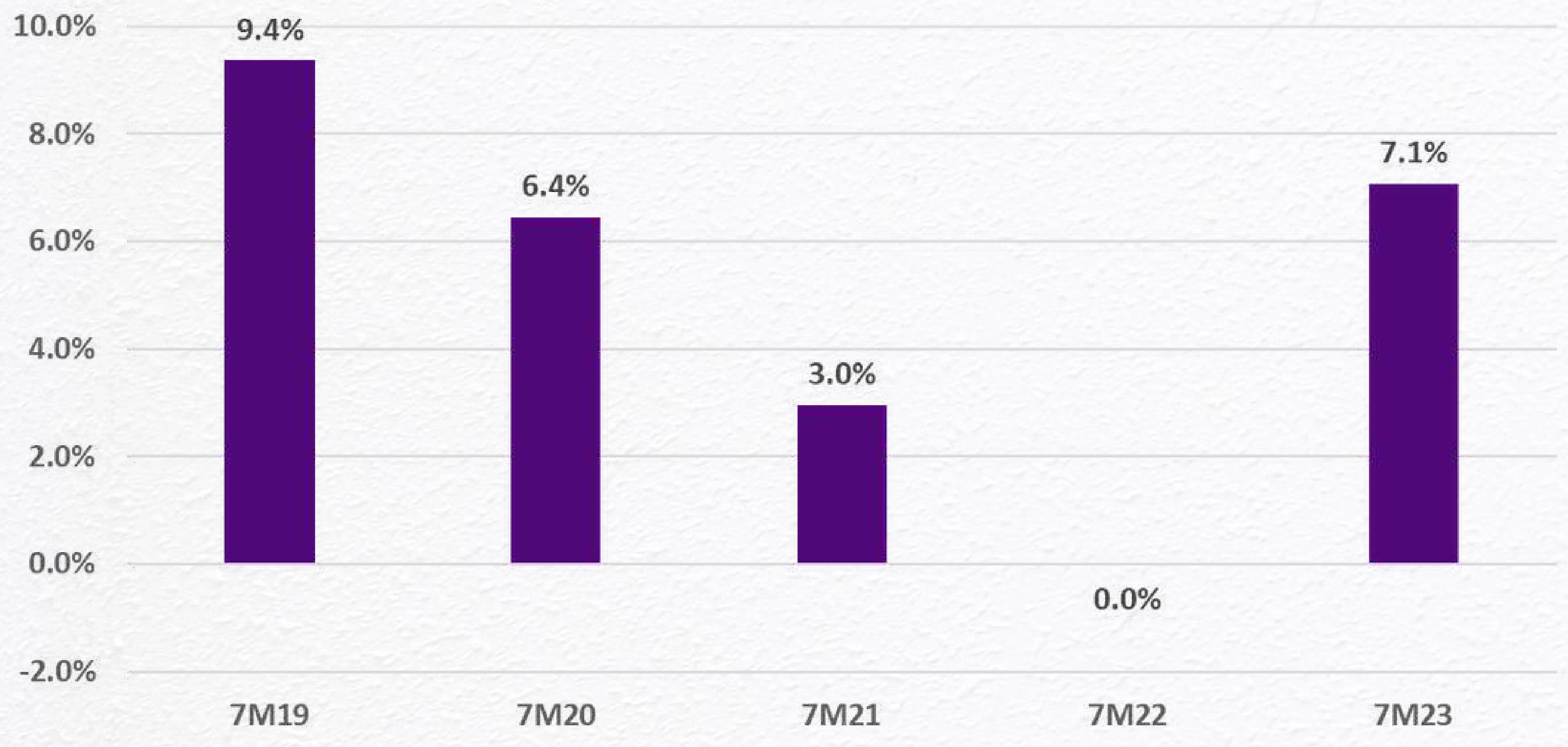
Domestic Bond Market Should Provide Better Return This Year

Since beginning of the year, domestic bond provided around 6.4% of gross return, the highest since 2023

Comparison of Historical Gross Return - Indonesia Composite Bond Return



Source : IBPA (data taken 27 June 2023)

Better Performance Compared to Peers' Countries & More Resilient to External Pressure

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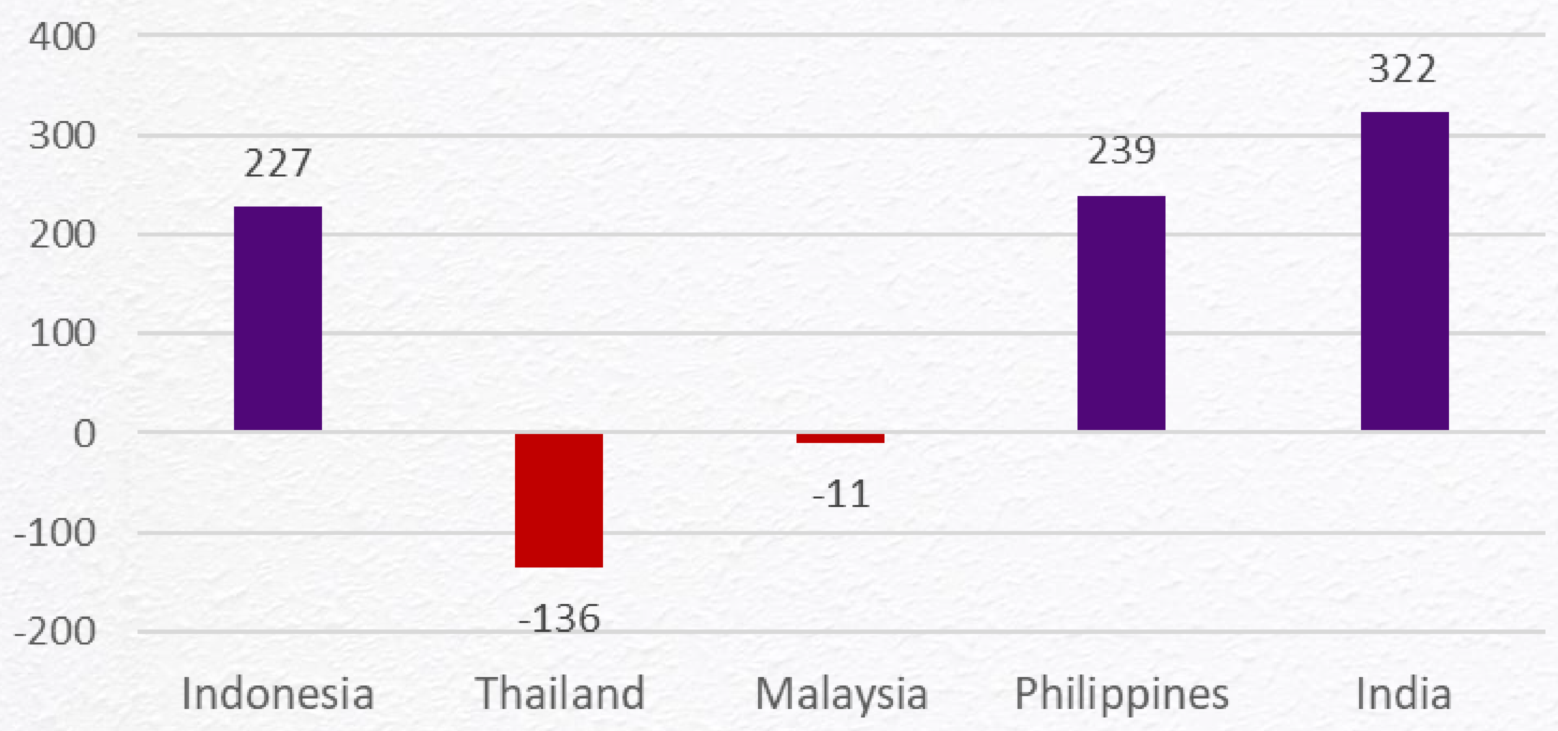
Compared to other peer's countries in the region, IndoGB has been performing well as the yield drop the most while still maintaining attractive valuation

Yield Spread to UST Yield



10-Year Yield Comparison Movement

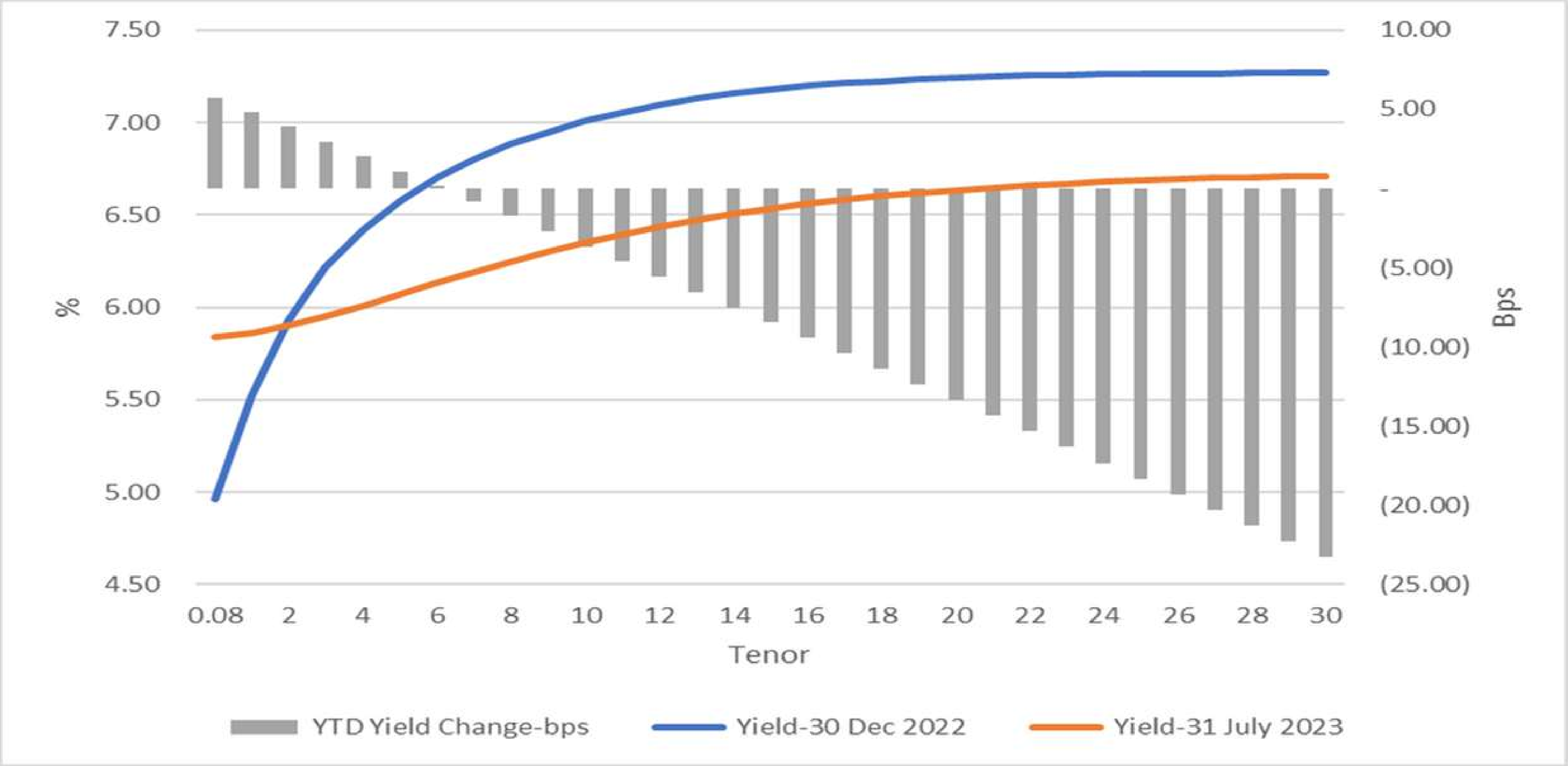
Country	Yield			MTD Change		YTD Change	
	30-Dec-22	30-Jun-23	31-Jul-23	bps	%	bps	%
Indonesia	6.9	6.2	6.2	-2.0	-0.3%	-70	-10%
Thailand	2.6	2.6	2.6	3.0	1.2%	-4	-2%
Malaysia	4.2	3.8	3.8	1.0	0.3%	-32	-8%
Philippines	7.0	6.3	6.3	7.0	1.1%	-63	-9%
India	7.3	7.1	7.2	6.0	0.8%	-15	-2%

Source: Bloomberg & IPBA

Government Bond Yield : Bullish Flattening

Indonesia government bond yield continue to decline on the back of solid macro fundamental and strong support from onshore & offshore investors

IndoGB Benchmark Yield Movement : Jan-July 2023



Source : IBPA (data taken 1 Aug 2023)

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Short to Long End Tenor's Spread has been Tightening

Indonesia government bond yield continue to decline on the back of solid macro fundamental and strong support from onshore & offshore investors

5-2yr Spread

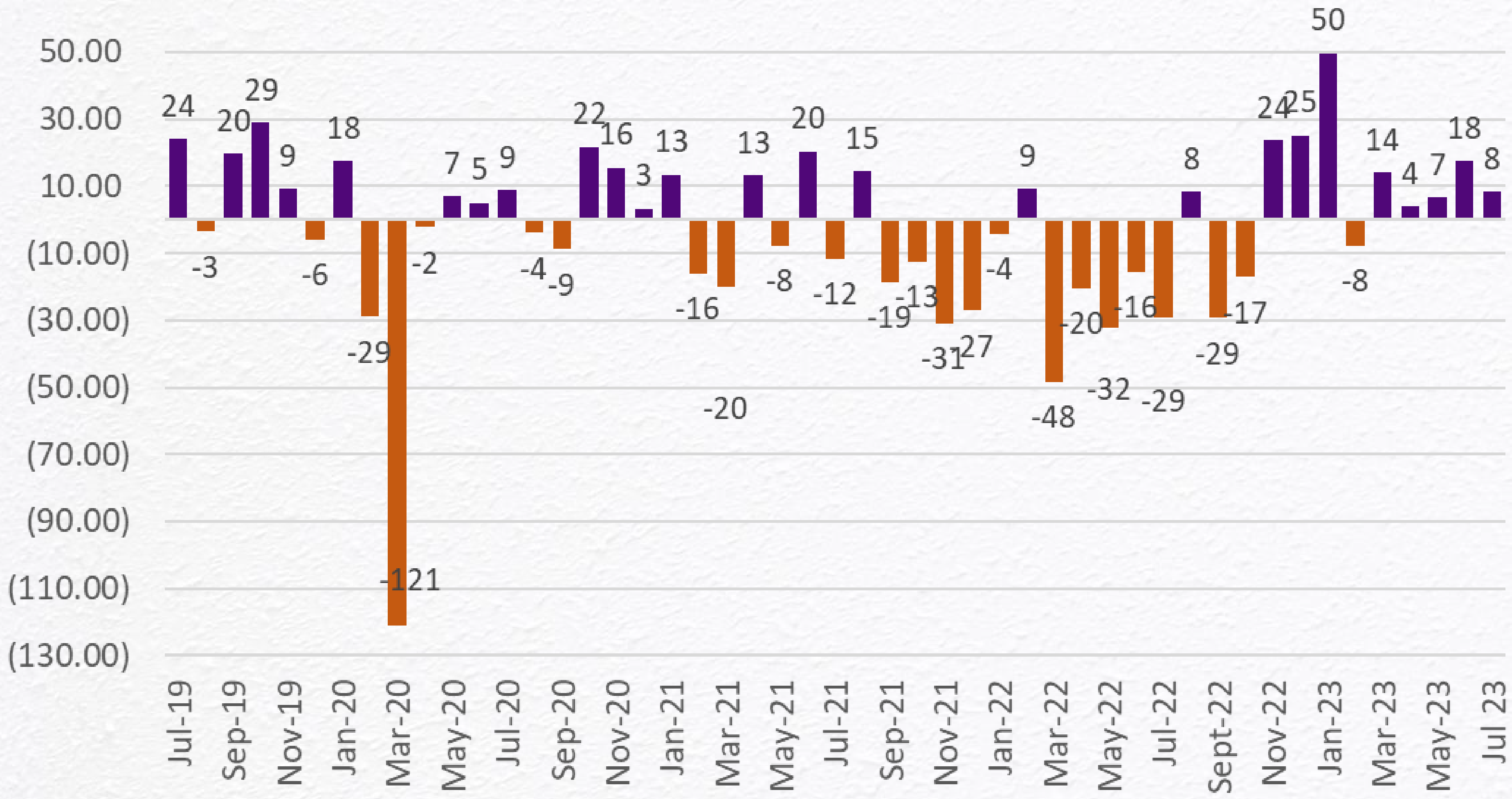
10-2yr Spread

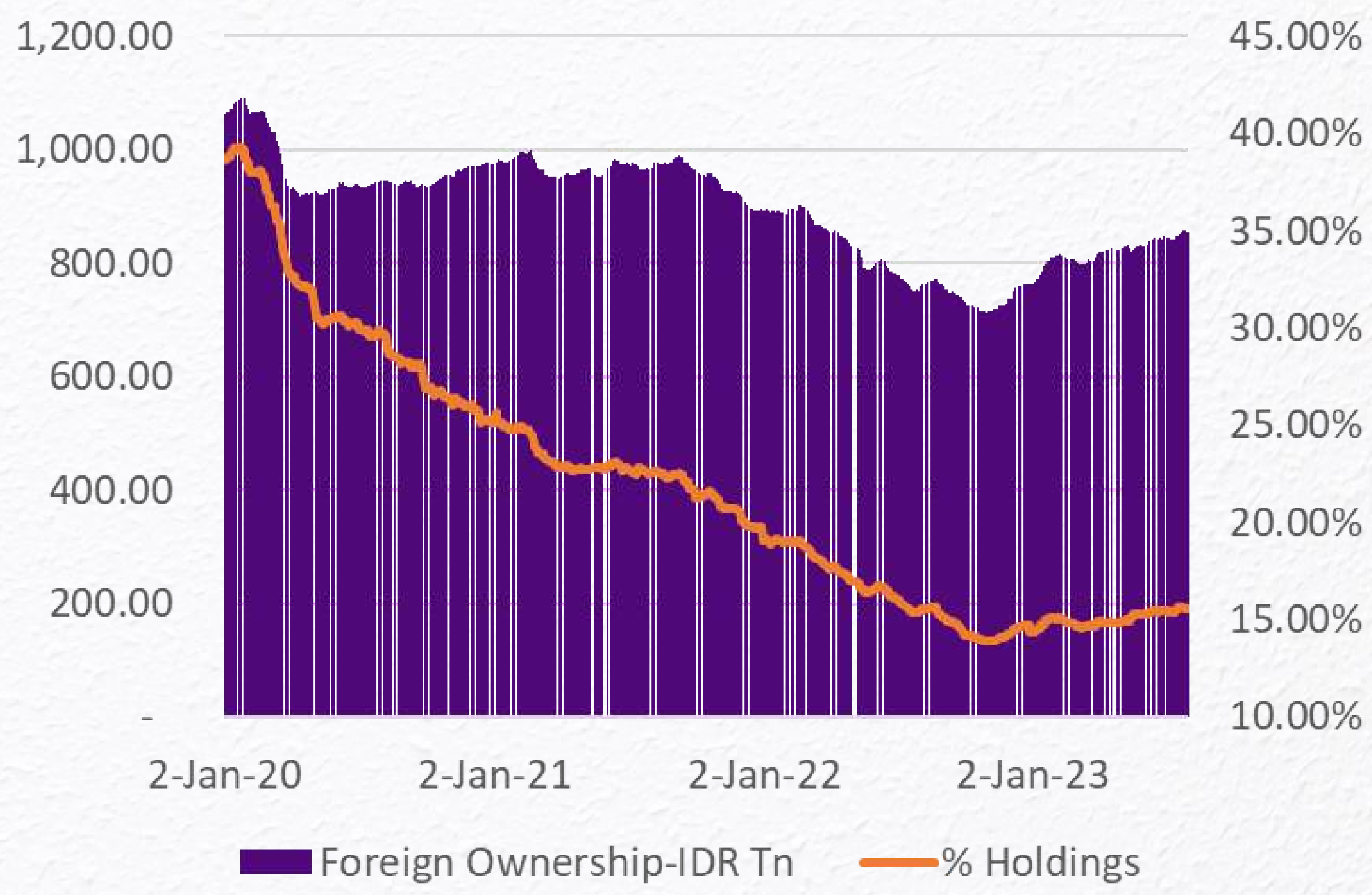
Source: Bloomberg

Foreigners Are Back..!

Up to 31 July 2023, total foreign inflows reported IDR 93 tn, and we expect it will continue to be one of the key support to Indonesia bond market as current foreign holding remain below its historical average.

Foreign Flow – IDR tn



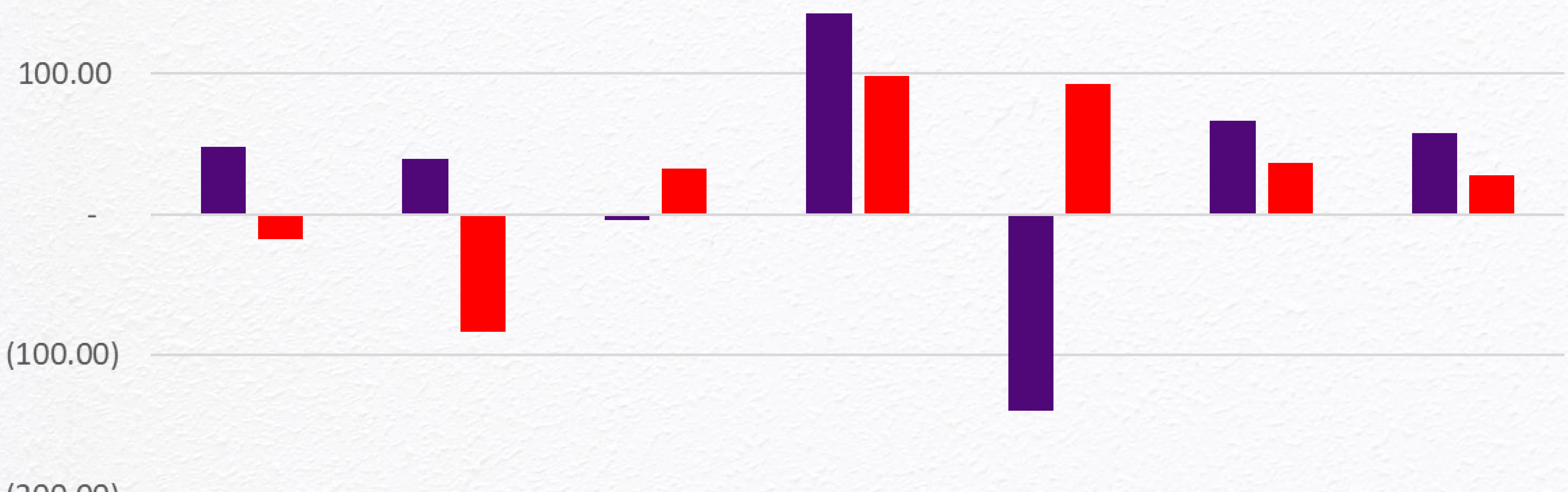


Source: Bloomberg

Onshore Support Remain Solid

Participation of local investor also remain high both from institution and individual, reflected that domestic liquidity remain ample

Net Inflows by Investor Type - IDR tn



	Bank	BI	Mutual Fund	Insurance & Pension	Foreign	Individual	Others
Jul-22	48.31	39.32	(4.23)	142.68	(140.10)	66.80	57.74
Jul 23	(17.49)	(83.24)	33.00	98.29	93.00	36.56	27.26

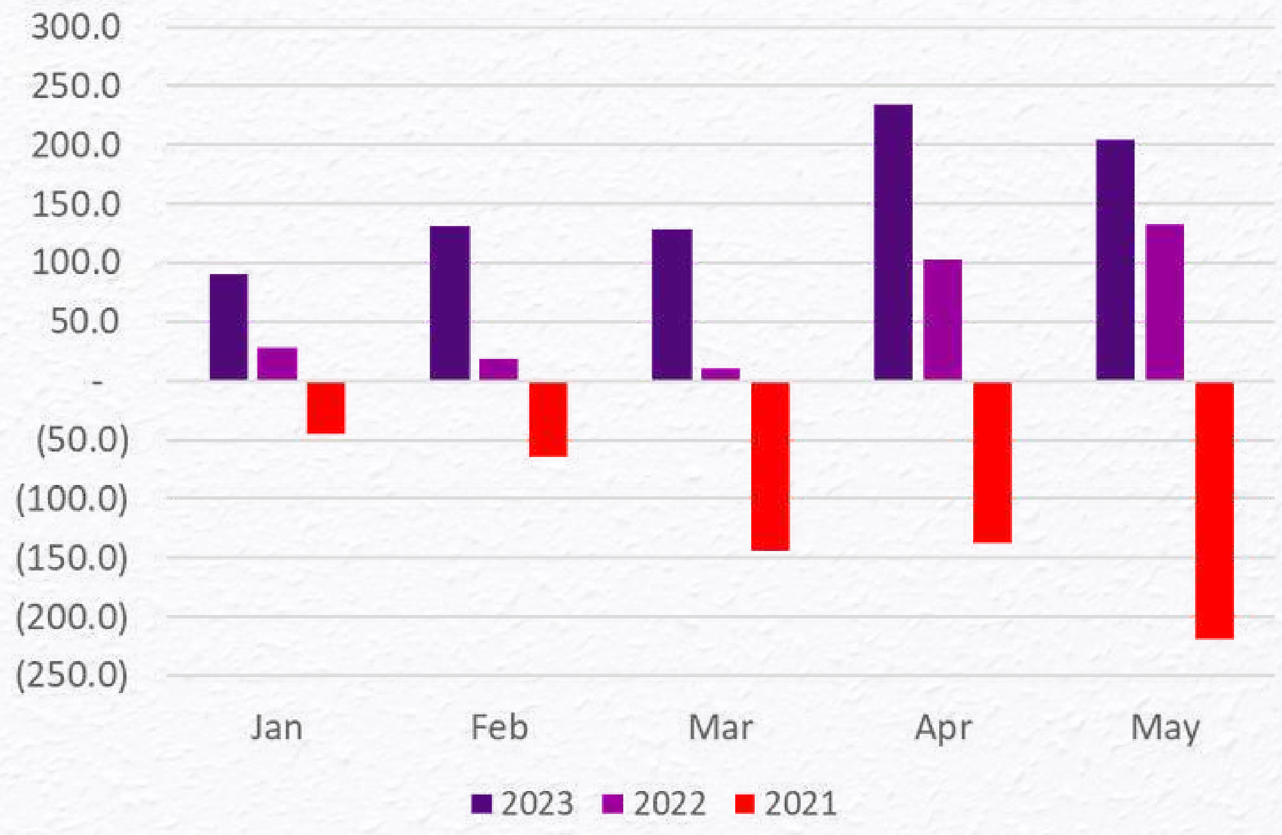
Source: DJPPR 11 May 2023

Robust Fiscal Performance Supports Lower Government Bond Supply

- Third quarter issuance from regular auction is set IDR 141 tn. We expect that the liquidity will remain ample as total government bond to be mature in the same period of this year at around IDR 167 tn.
- MoF revised its 2023 budget deficit quite significantly to -2.28% of GDP from initial target -2.84% of GDP or around IDR 112 tn of reduction in budget deficit. Total revenue target was raised by 7% to IDR 2,637 tn while total expenditure was set higher by 2% to IDR 3,123 tn. During the first half of this year, fiscal realization was still in surplus territory of IDR 153 tn.

Historical Government Bond Issuance – IDR tn

Monthly Fiscal Surplus (Deficit) – IDR tn



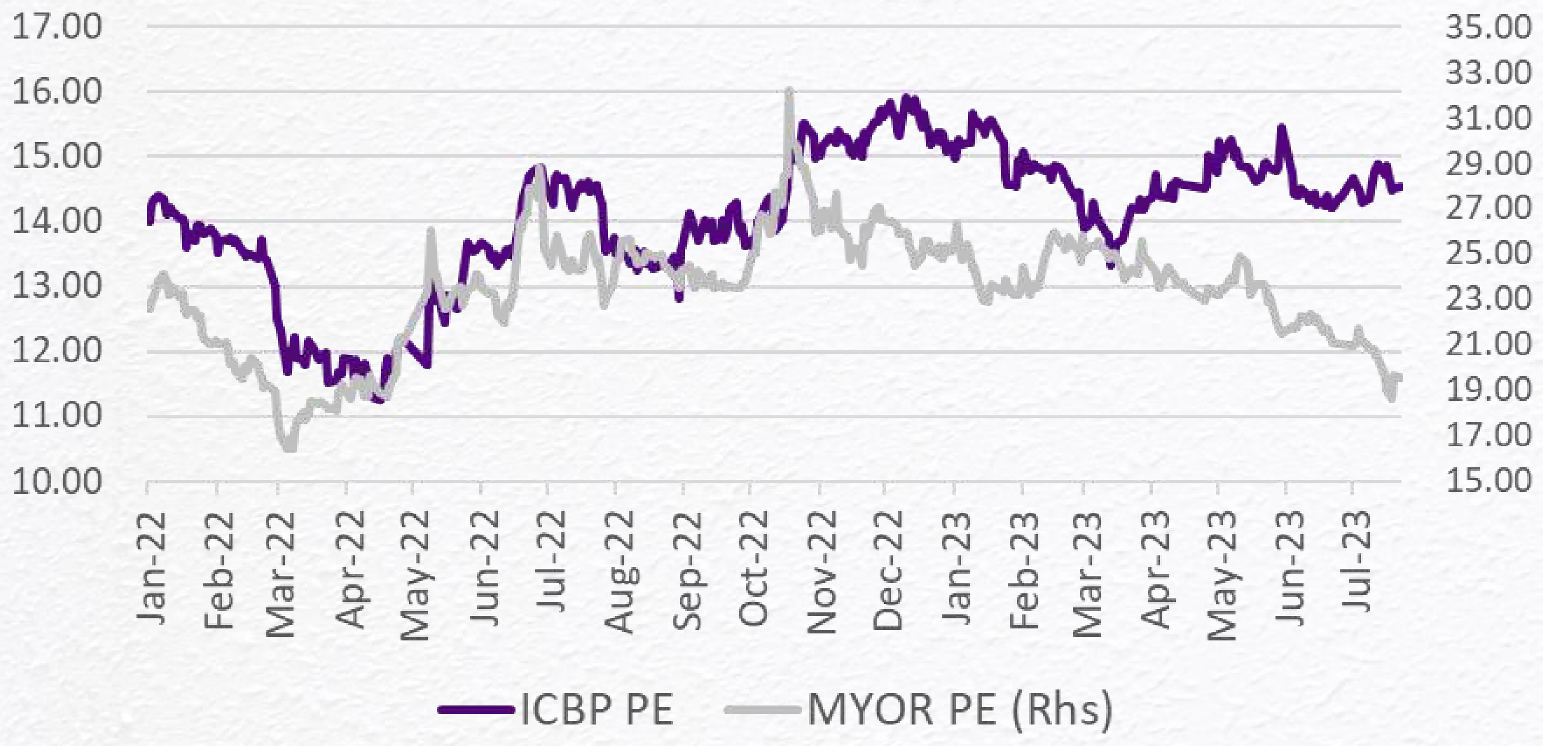
Source : DJPPR & Mansek (data taken 27 June 2023)

Equity Market Outlook

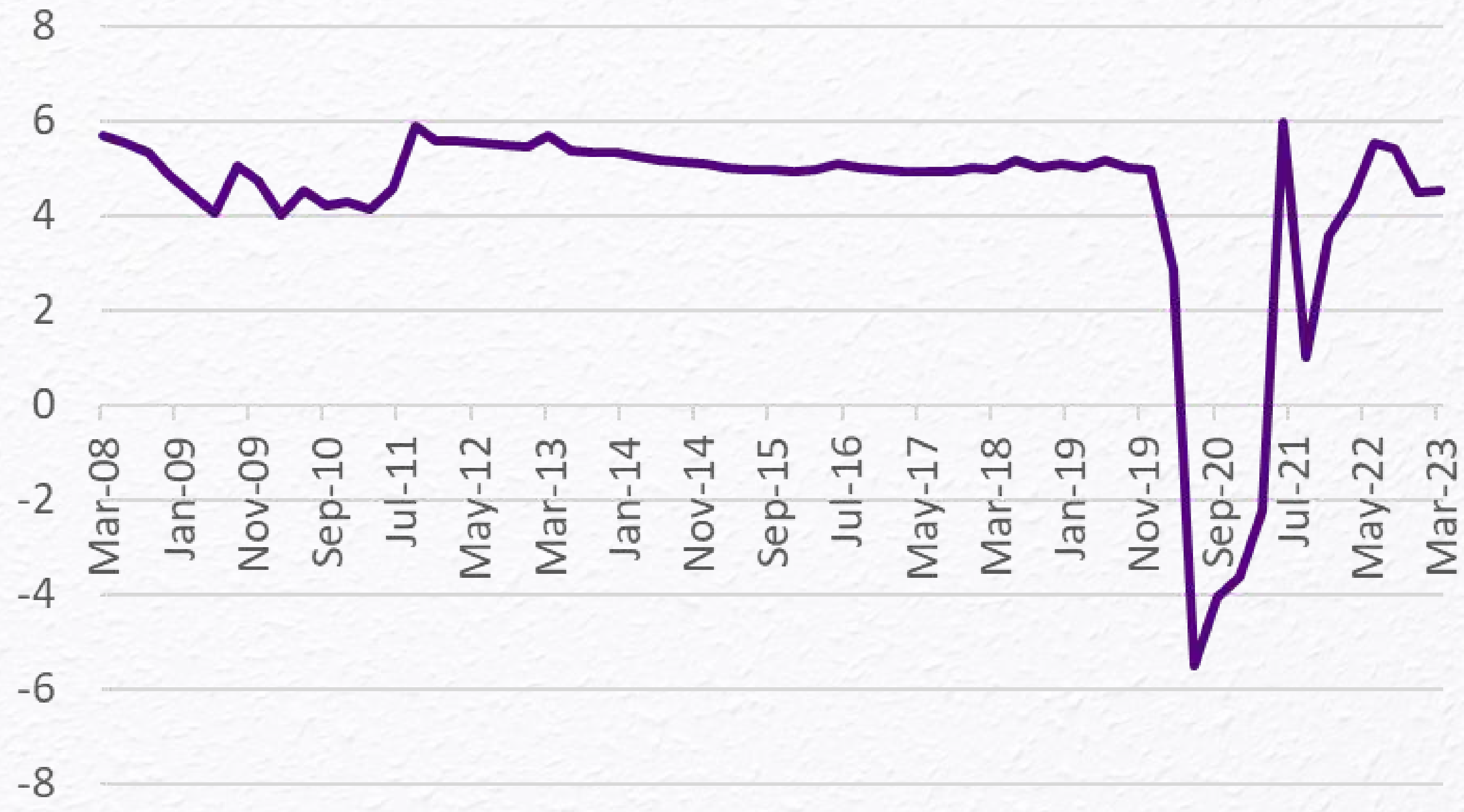
Potential For An Election-Driven Consumption Boost

- There is an expectation that election campaign spending will boost consumption in 2H23.
- We tend to agree though we caution that such expectation may be partially priced-in.
- Election spending did not move the needle much in 2019

P/E Ratio of Consumer Staples Stocks.



Indonesia Consumption Part of GDP YoY

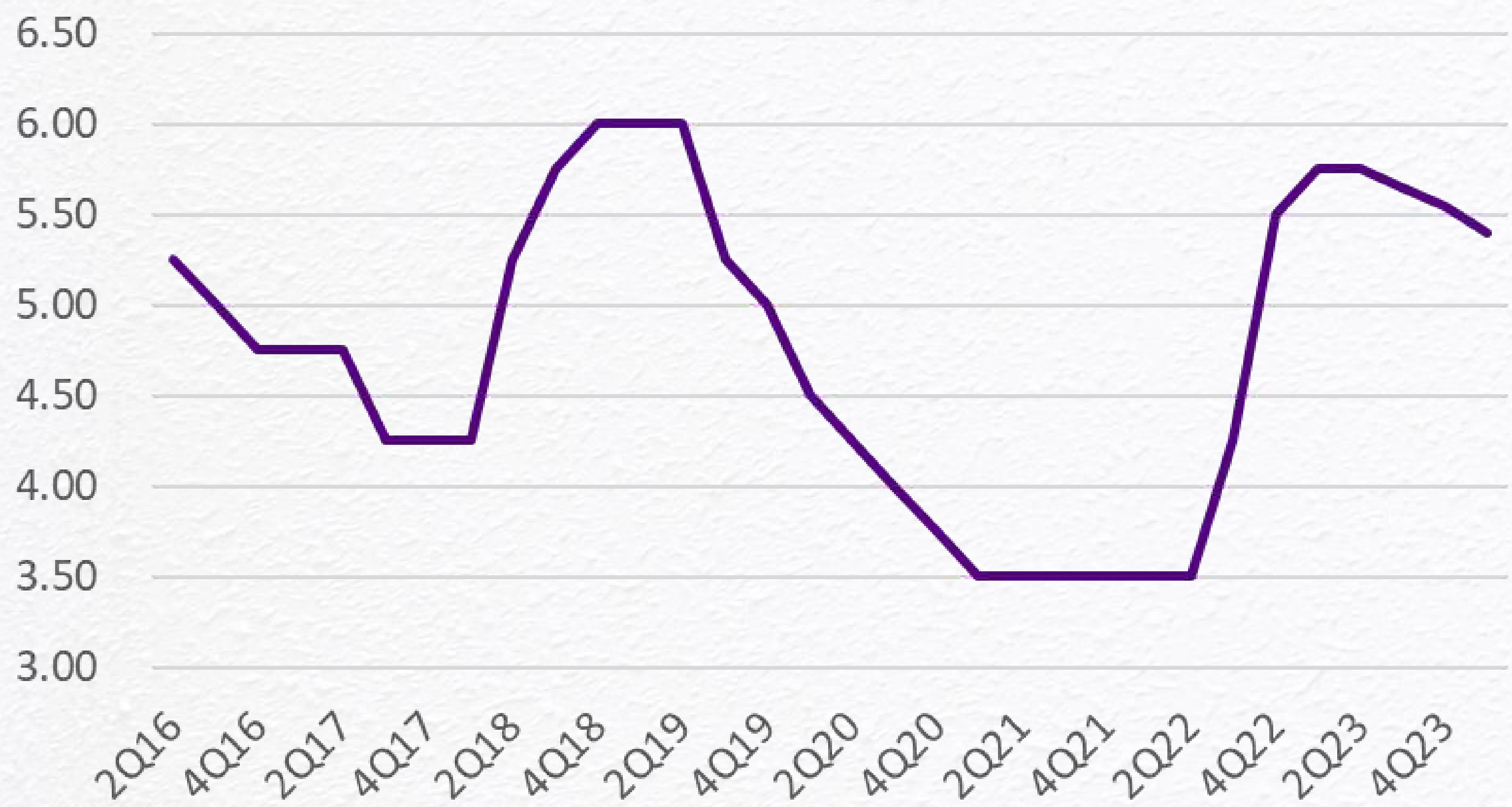


Source: Bloomberg

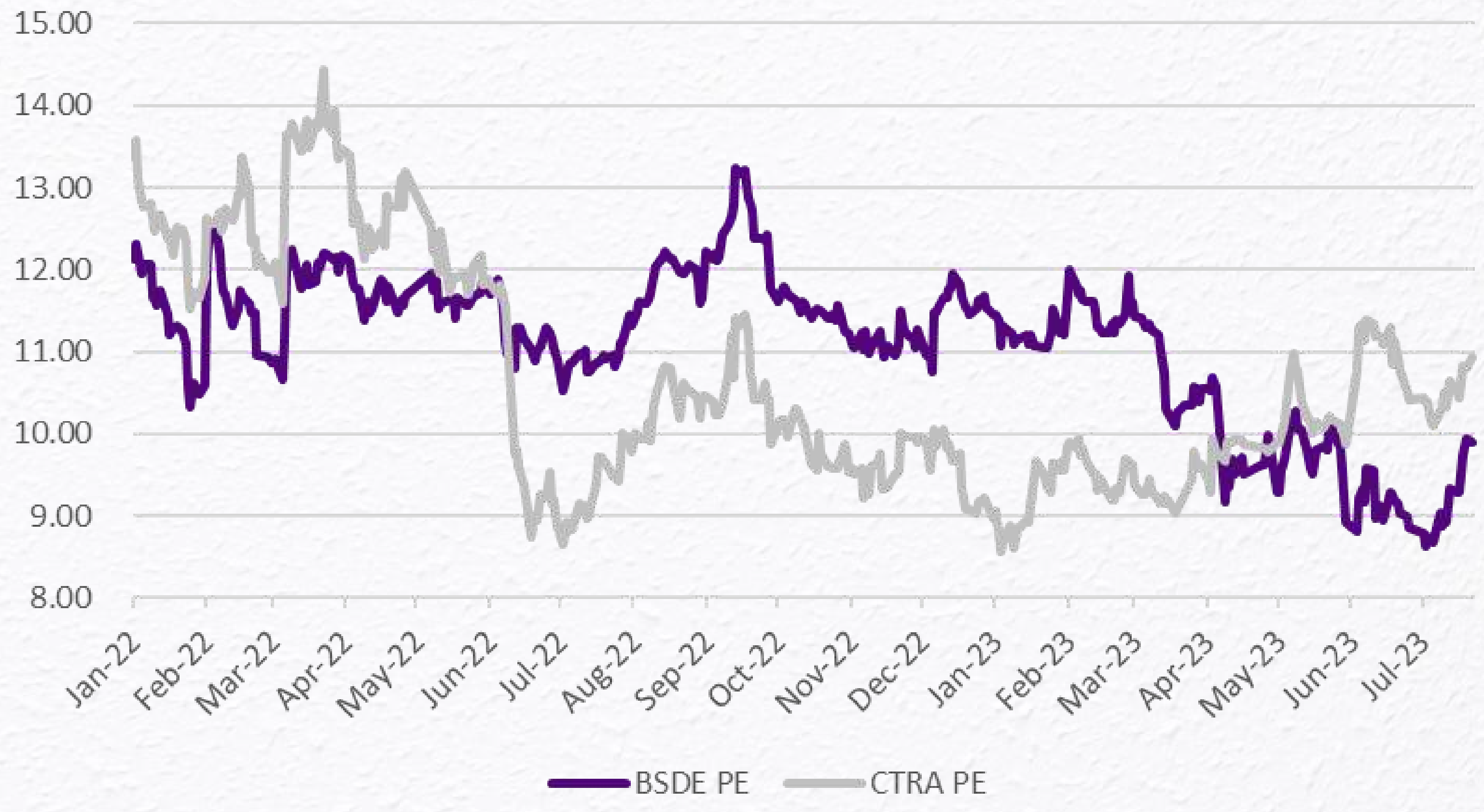
Market Is Hopeful Of A BI Pivot

- Some market participants are expecting that BI will start to cut rates end of this year or early next year.
- Much will depend on US inflation trajectory, Fed's stance, commodities prices, and currencies movement.
- Property which is an interest-rate sensitive sector has outperformed in 2Q23

BI 7DRRR Actual and Consensus



P/E Ratio of Property Stocks



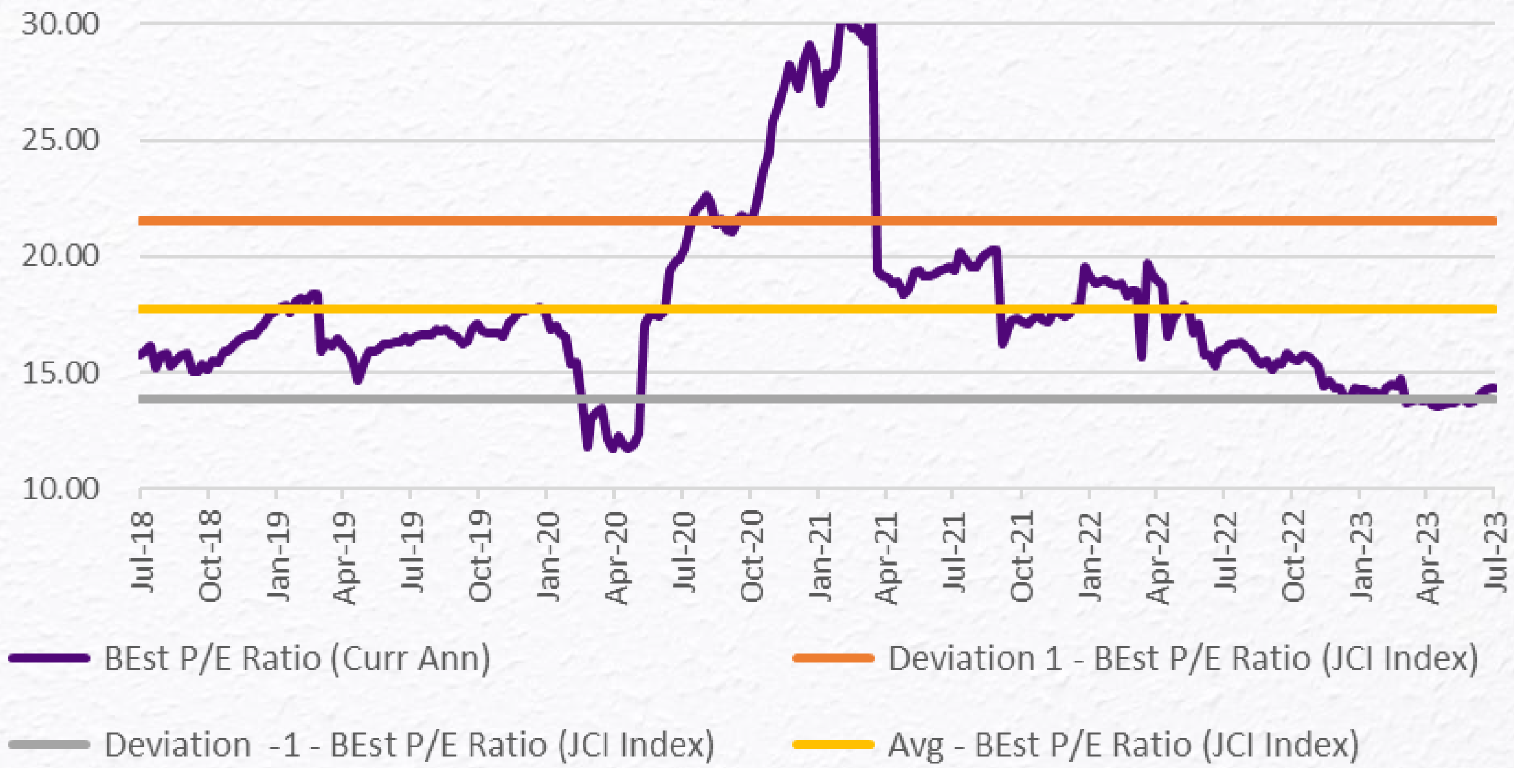
Source: Bloomberg

Funds Flow Into Indonesia Still Slow

- Since January 2023, inflows have started to come back to Indonesian stocks though only at modest pace (ytd USD 1.4 bn as of 26Jul23)
- PE ratio of JCI (using current year earnings) is at 14.3x, at close to minus one standard deviation below 5-yr average

Cumulative Inflows Into Indonesian Stocks Since 2018

P/E Ratio of Jakarta Composite Index (Current Year EPS)



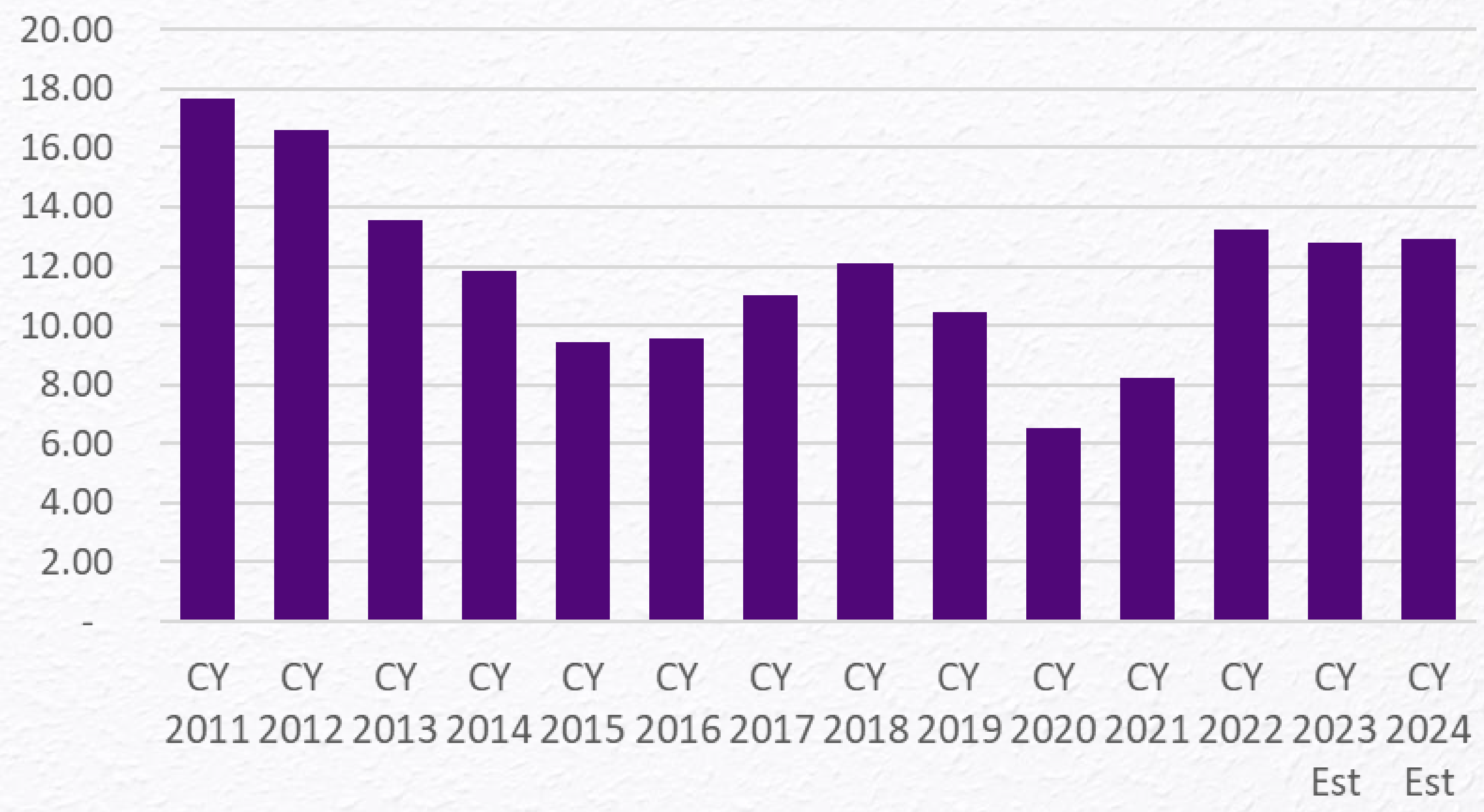
Source: Bloomberg

Earnings Are Steady and ROE is Healthy

- JCI's earnings are expected to grow 5% in 2023 and 10% in 2024.
- JCI's ROE are higher now than the average of 5 years before pandemic.

JCI EPS, Actual and Consensus

JCI ROE, Actual and Consensus

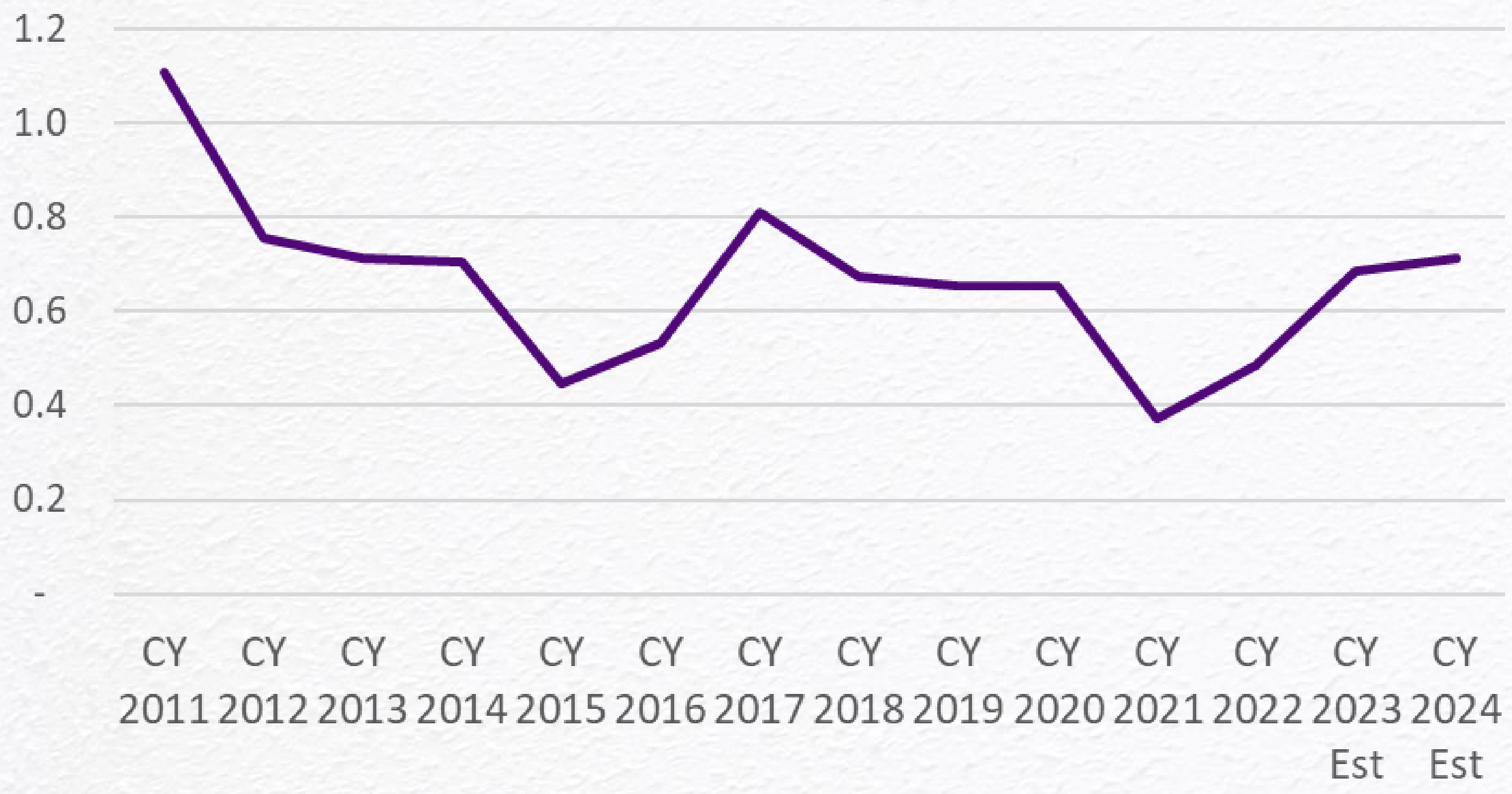


Source: Bloomberg

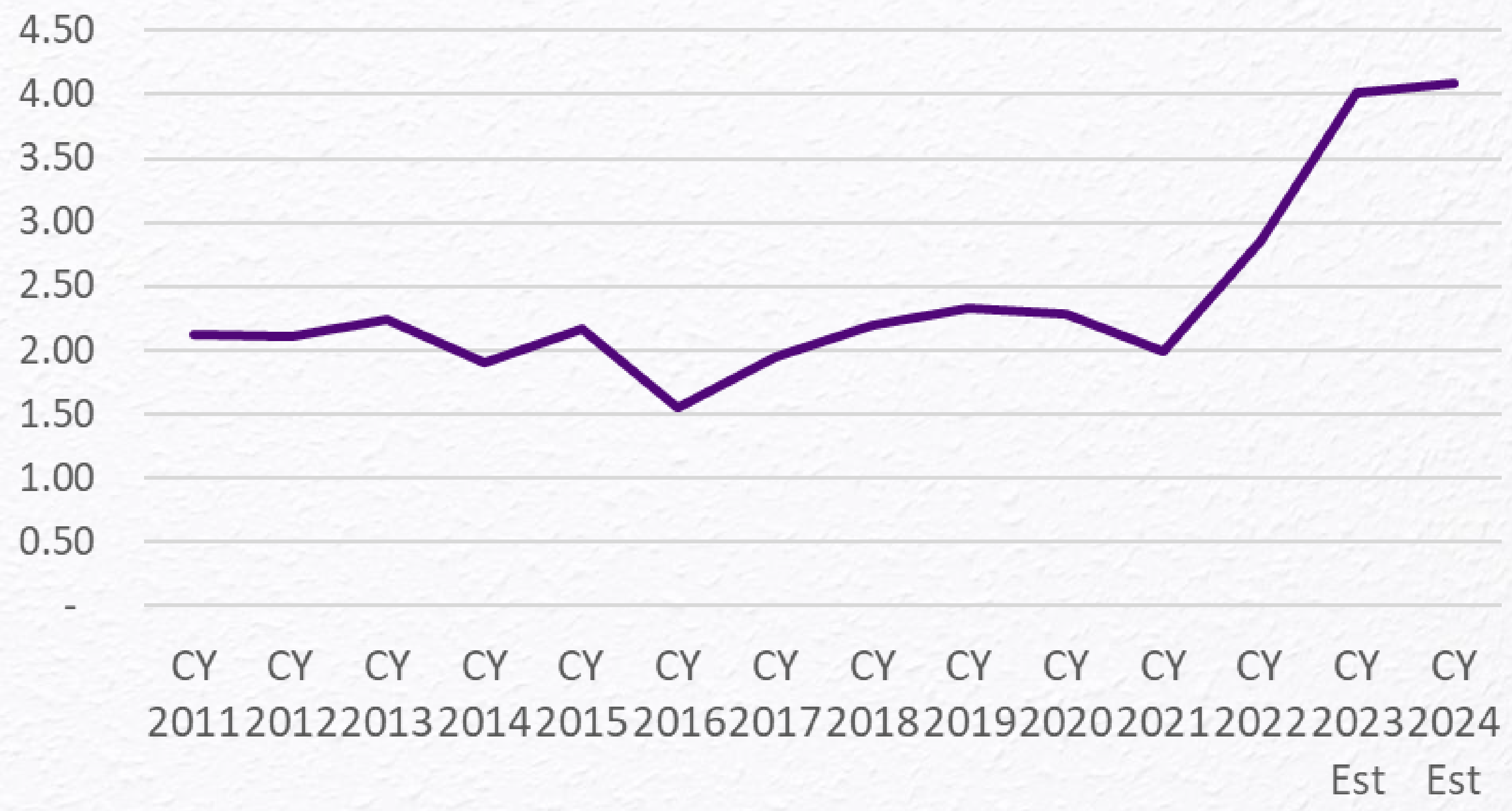
Earnings Quality Are Worsening A Bit, Dividend Yield Is Higher

- JCI's Net Income to Cash Flow From Operations (measure of earnings quality) are increasing (worsening).
- JCI's Dividend Yield is higher now than pre-pandemic average level.

JCI Net Income / Cash Flow

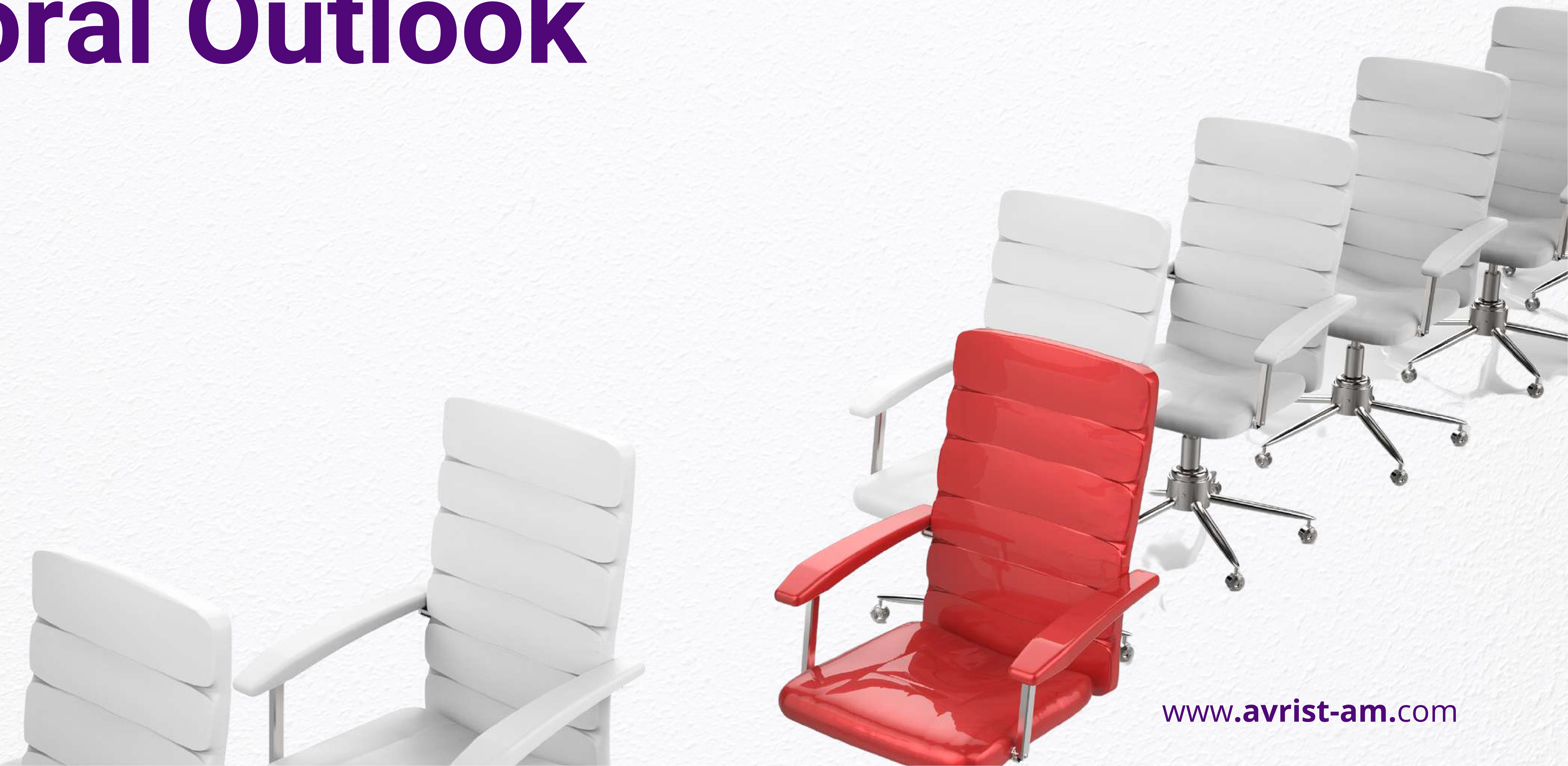


JCI Dividend Yield



Source: Bloomberg

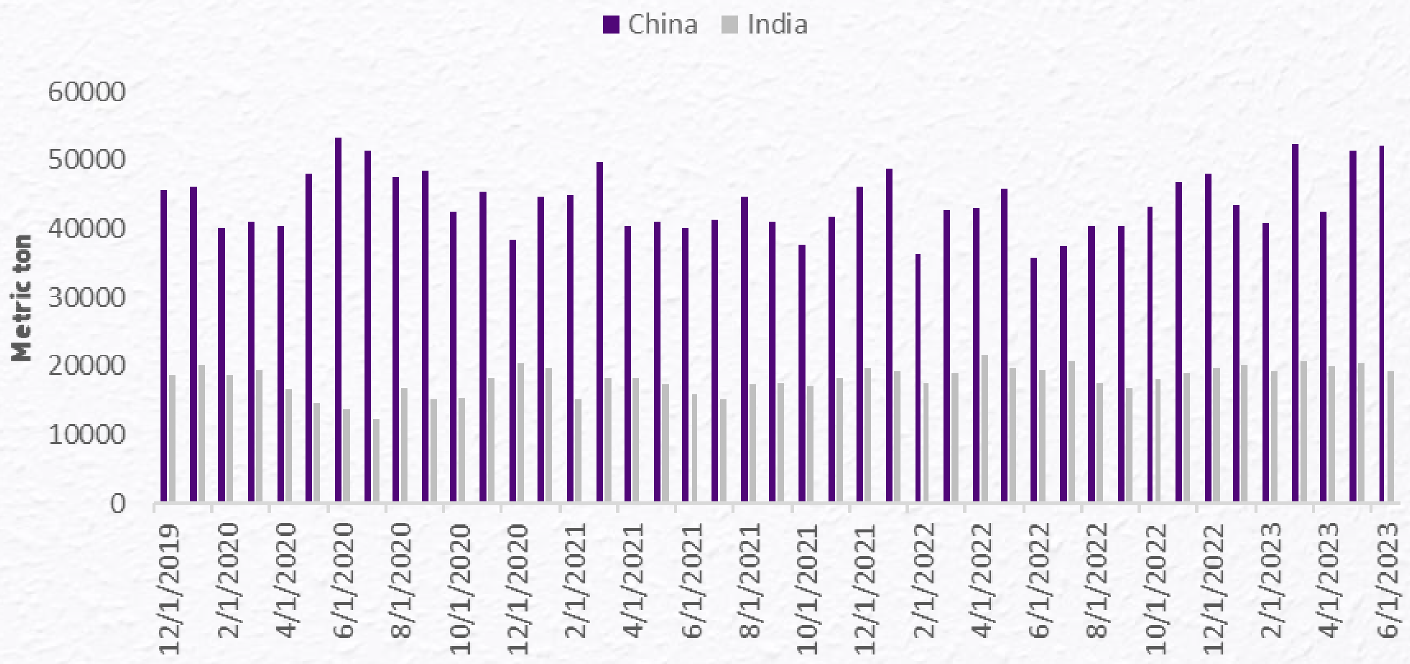
Sectoral Outlook



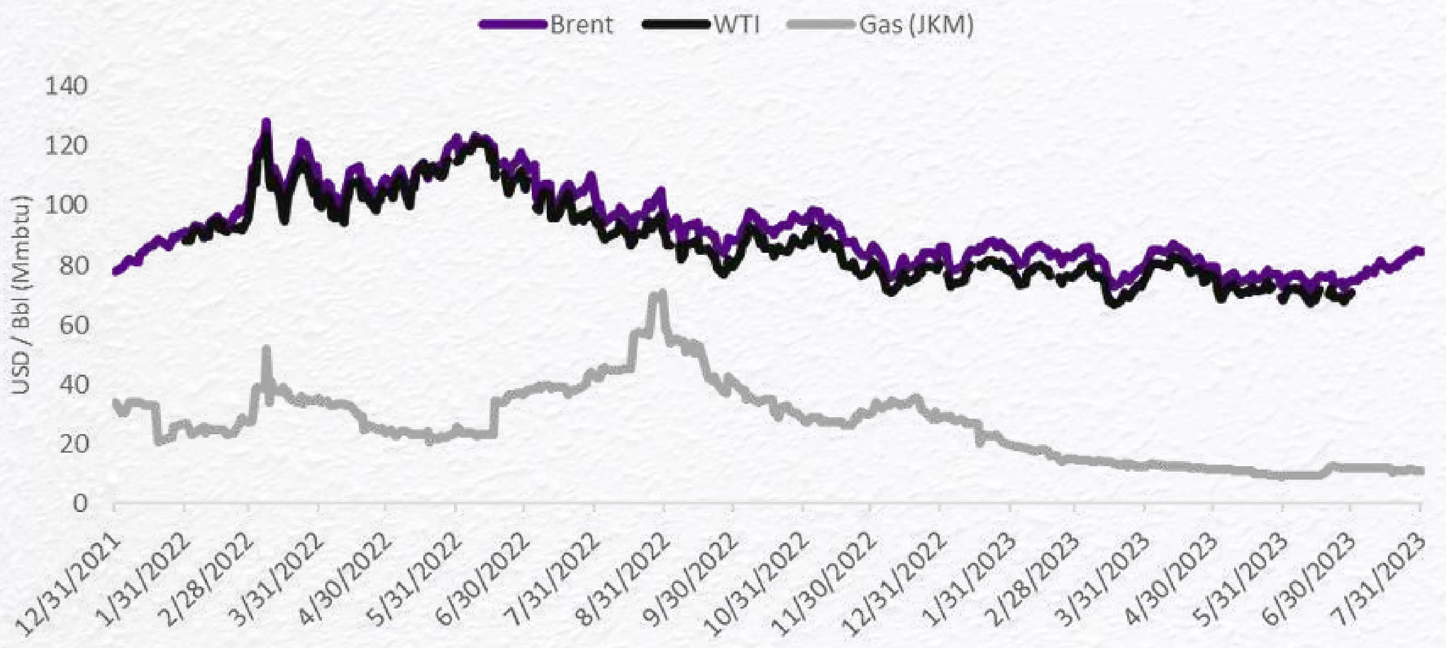
Oil and Gas Sector
Production cut sentiment (Overweight)

- O&G production tend to decline due to production cut from some countries in OPEC and OPEC+ such as Russia and Saudi Arabia.
- In our view, China and India as one of the biggest oil consumer in the world will continue increase the demand in line with economy recovery in each country.

Crude oil production (top) and import (bottom) by country



Oil price tend to increase in the last few weeks

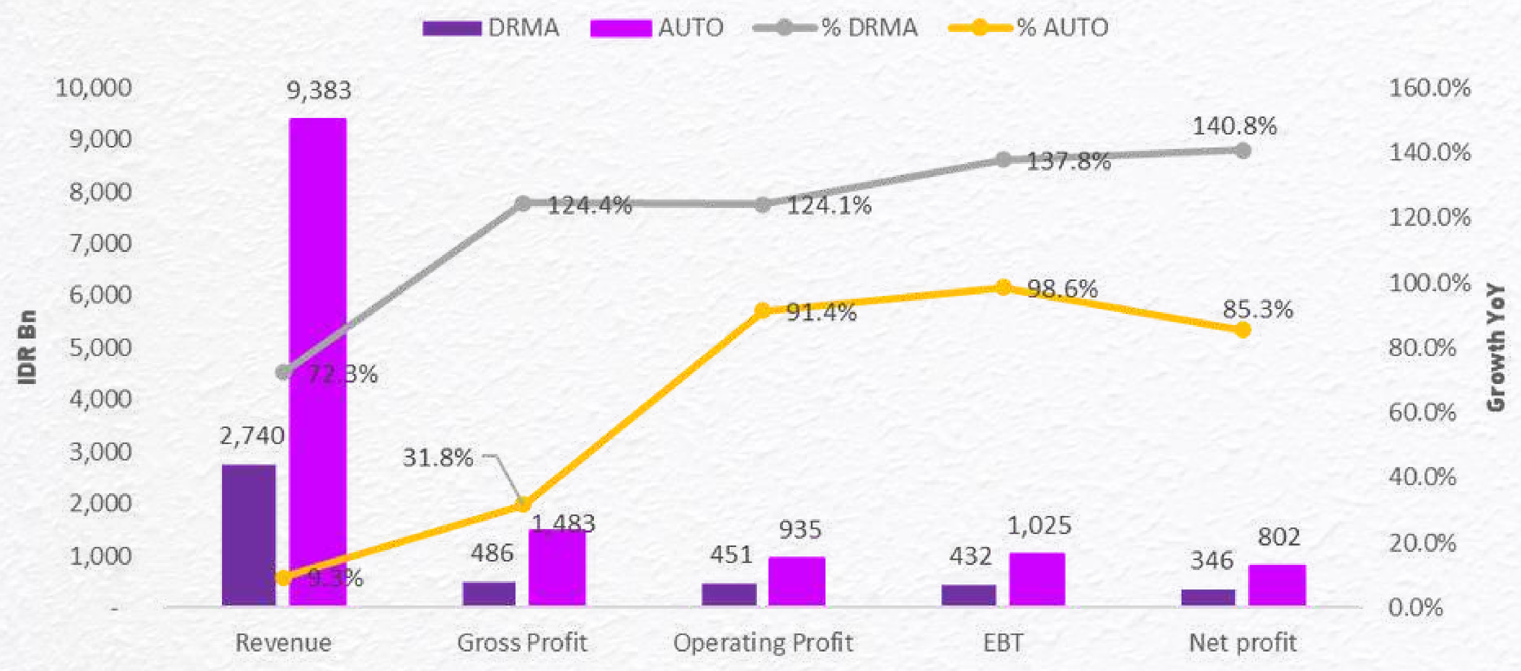


Source: Gaikindo, Aisi, Avrist Asset Management

Automotive (Components) Sector
Auto components in line with strengthening auto sales (Overweight)

- Auto-components companies has a good performance in 1H23. The companies like AUTO and DRMA has a great topline and bottom-line both margin and growth.
- DRMA's growth supported by sales of 2W and 4W components by 67.9% and 78.1% (yoy), respectively. For AUTO growth, OEM business segment as a main driver in 1H23.
- Both AUTO and DRMA, has capabilities in EV components so we view they will be able to take the EV opportunities or trend. Currently, DRMA produces some EV components for Hyundai and AUTO produces charging station network.

Financial metrics of auto-component companies in 1H23



Auto-component companies experienced margin improvement in 1H23

Margin 1H23 (%)	DRMA	AUTO
Revenue	**100%**	**100%**
Gross Profit	17.7%	15.8%
Operating Profit	16.5%	10.0%
EBT	15.8%	10.9%
Net profit	12.6%	8.5%

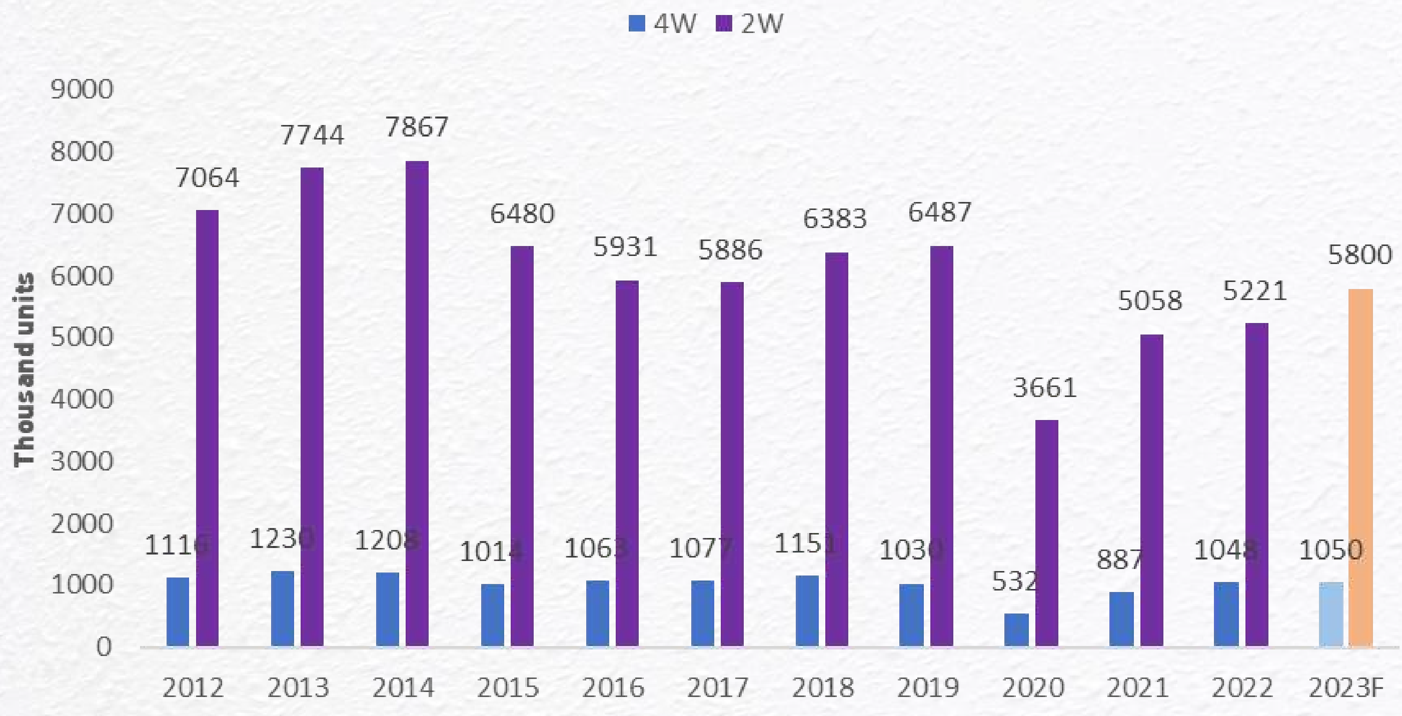
Margin 1H22 (%)	DRMA	AUTO
Revenue	**100%**	**100%**
Gross Profit	13.6%	13.1%
Operating Profit	12.7%	5.7%
EBT	11.4%	6.0%
Net profit	9.0%	5.0%

Source: Bloomberg

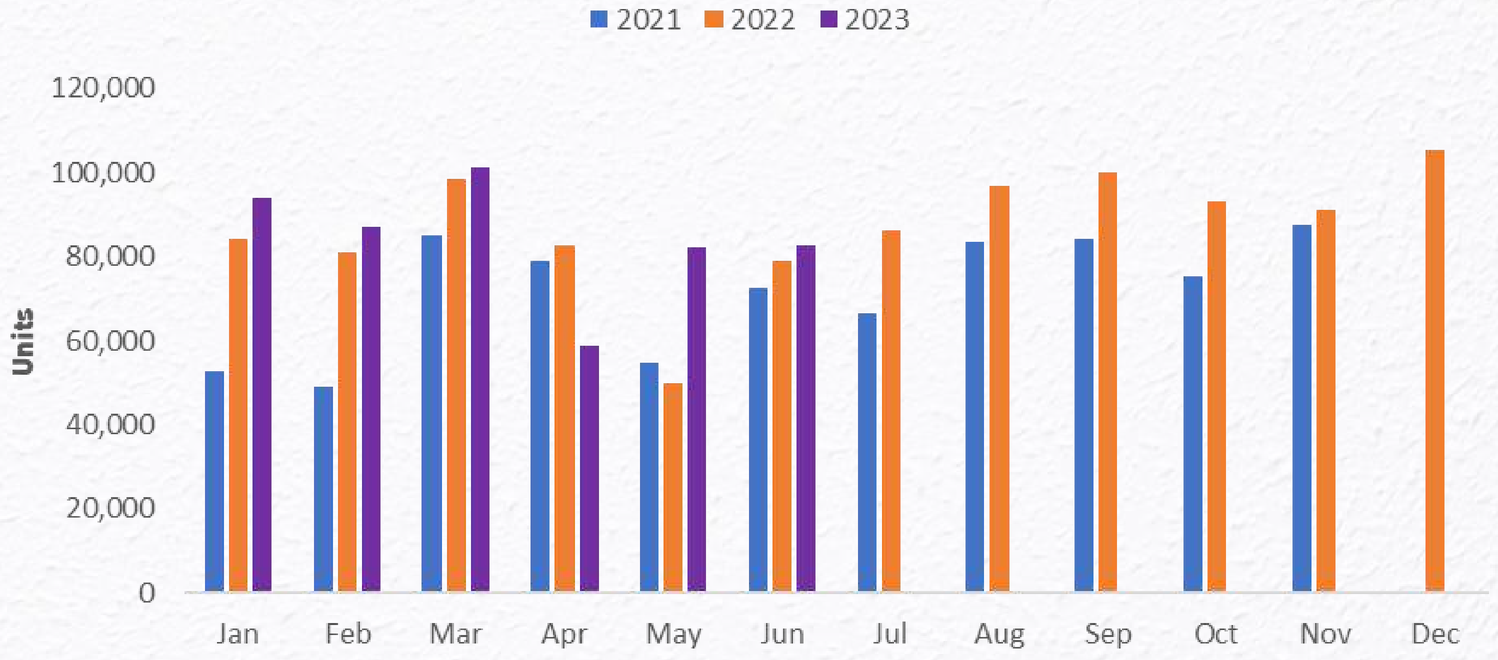
Automotive (Components) Sector
Auto components in line with strengthening auto sales (Overweight)

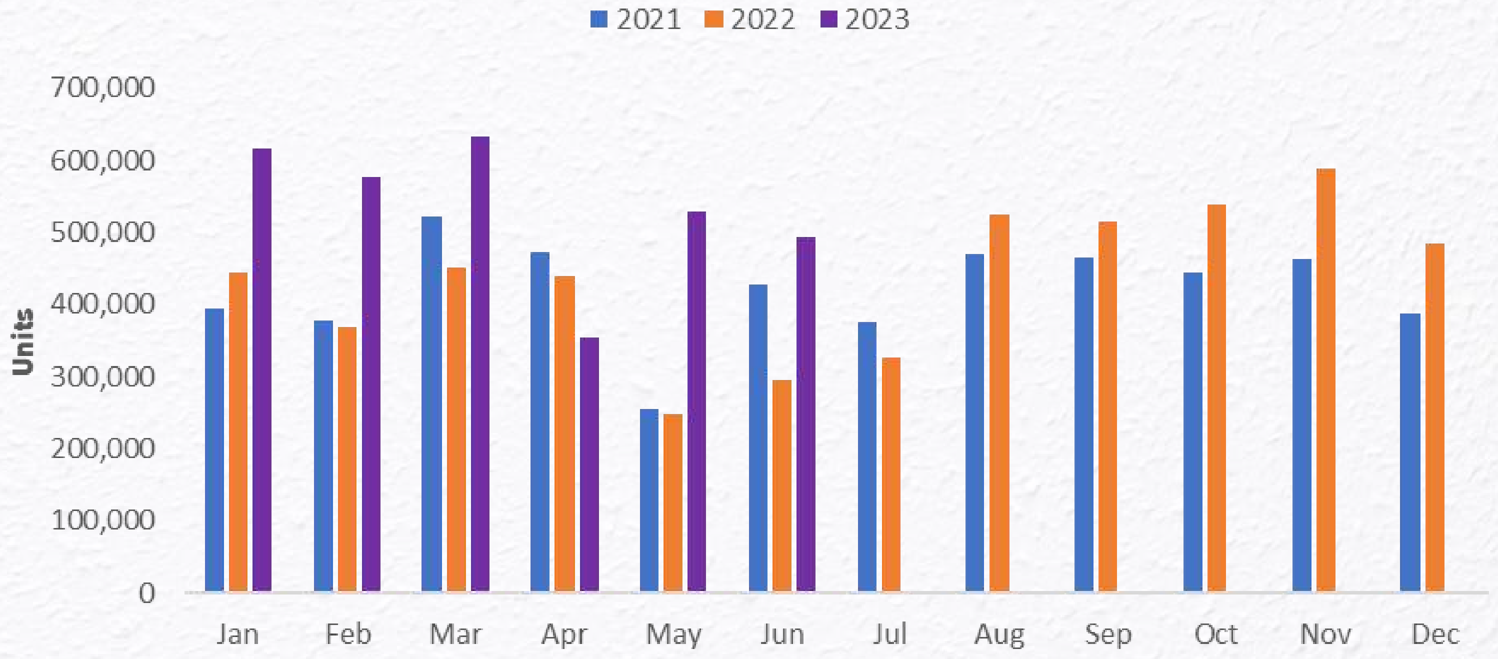
- 4W and 2W sales in Indonesia were 505.985 units (+6.5% yoy) and 3.201.930 units (+42.5% yoy) in 1H23, respectively.
- We project that 2H23 sales will be higher than 1H23 sales for both 4W and 2W, due to sales seasonality for 4W and 2W.
- It will positively impact auto-components demand due to higher demand on 4W and 2W.

4W and 2W sales in Indonesia 2012-2023F



Sales seasonality for 4W (top) and 2W (bottom) in Indonesia





Source: Companies, Bloomberg

Retail Sector
Economic & consumption recovery will continue (Overweight)

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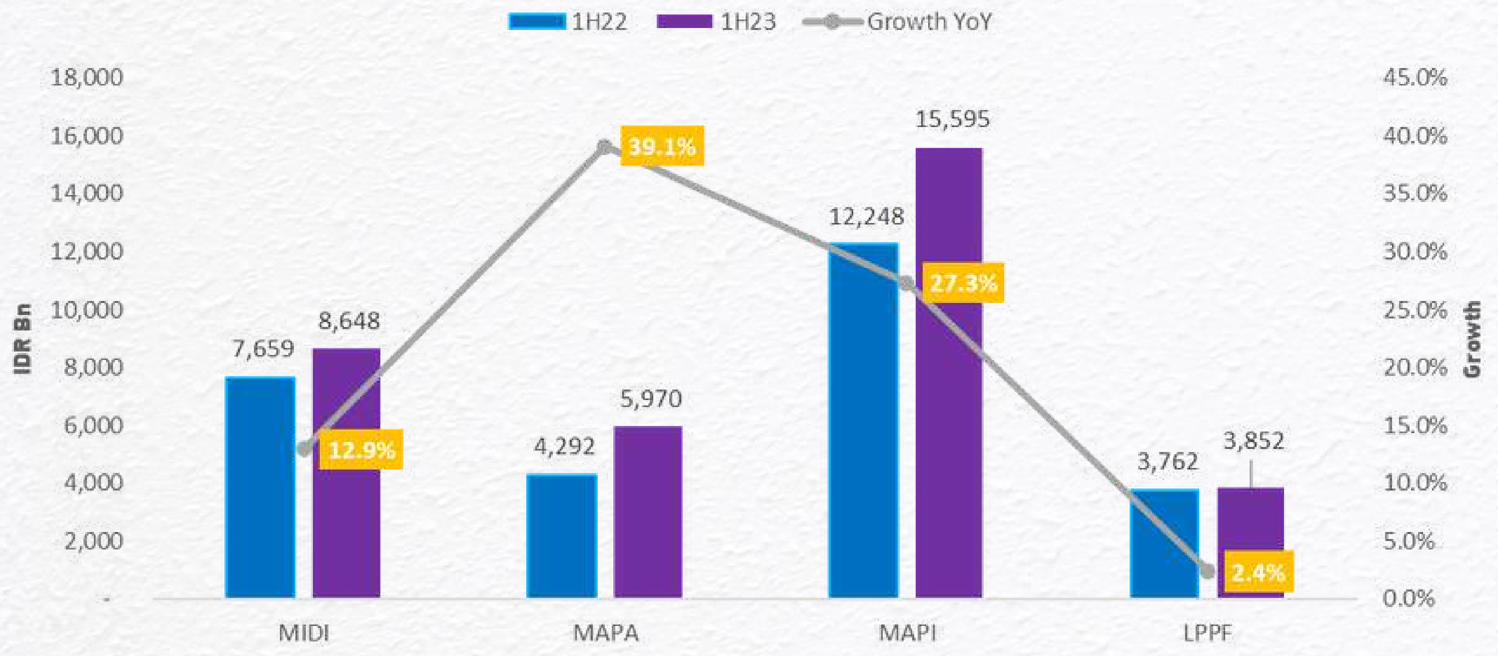
- Retail sector has a good prospect ahead as seen in strong growth in revenue supported by all segments business that retail companies own.
- It has impacted retail companies' bottom-line growth. In example, we have MAPA, MAPI, and MIDI which recorded 1H23 net profit growth of +40.2%, +13.1%, and +34.0% (yoy), respectively.
- Furthermore, we see that economic recovery especially in Indonesia will maintain the good momentum of retail sector.

Most retail companies has posted strong growth in revenue



All business segments in retail companies continue to grow

MAPA	1H22	1H23	Growth	% sales
Retail sales	3,722	5,190	39.4%	86.9%
Non-retail sales	570	780	36.9%	13.1%
Total	4,292	5,970	39.1%	100%

MAPI	1H22	1H23	Growth	% sales
Retail sales	9,290	11,933	28.5%	76.5%
Department stores	1,210	1,380	14.0%	8.9%
Café and restaurant	1,557	1,999	28.4%	12.8%
Others	190	282	48.2%	1.8%
Total	12,248	15,595	27.3%	100%

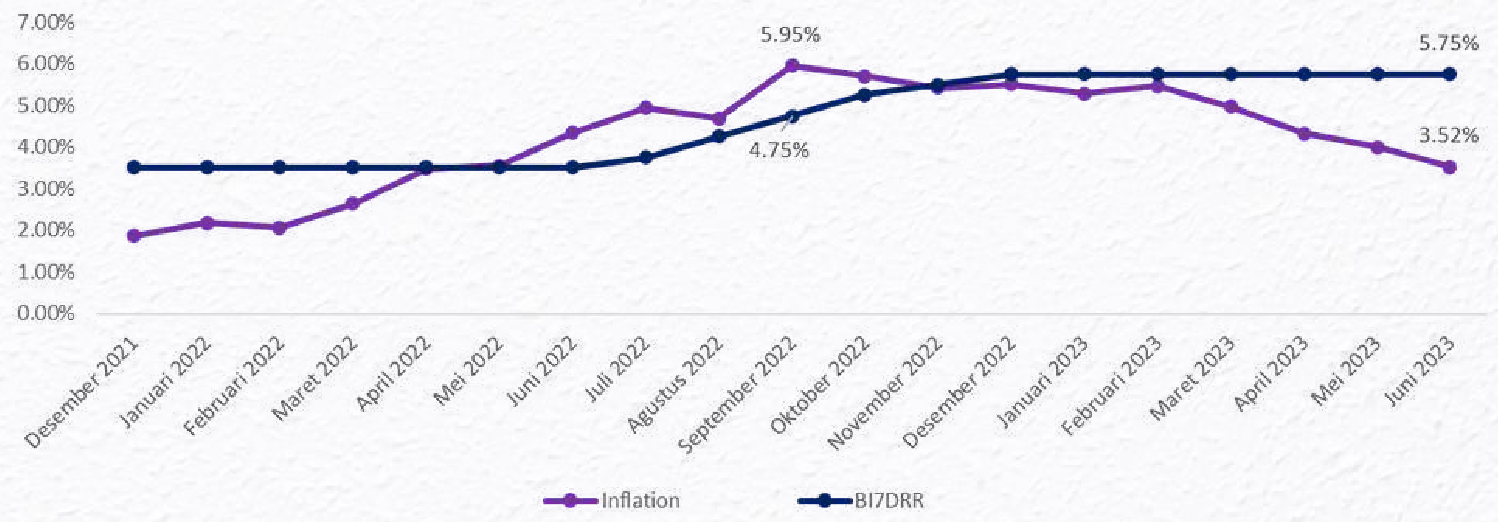
MIDI	1H22	1H23	Growth	% sales
Food	4,535	5,313	17.2%	61.4%
Fresh food	1,028	1,187	15.5%	13.7%
Non-food	2,096	2,148	2.5%	24.8%
Total	7,659	8,648	12.9%	100.0%

Source: Companies, Bank Indonesia

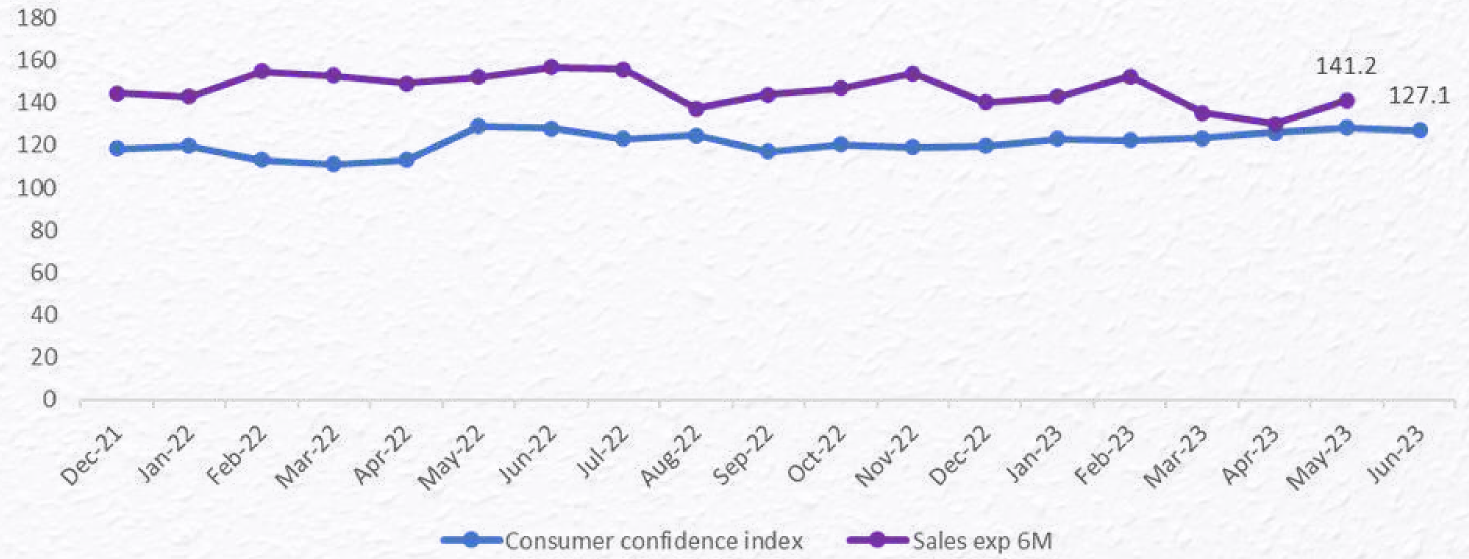
Retail Sector
Economic & consumption recovery will continue (Overweight)

- We see that headline inflation continue to decrease in the BI's target range 3%±1% since May 2023 and BI7DRR has been paused since February 2023 as a good sign especially for Indonesian economy ahead.
- Indonesian inflation that continue to decrease makes retail sales expectation also move higher in line with the strengthening in consumer confidence, which might be a sign of increasing consumption ahead.
- Based on BI Consumer Survey for June 2023, consumption proportion increase from 74.2% of total spending in June 2022 to 75.7% of total spending in June 2023.

Inflation continue decline and BI7DRR peaked



Strong of consumer confidence and retail sales expectation



Source: Companies, Bank Indonesia

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Auto-motive	Over-weight	• Good result in 2Q23 with attractive valuation • 4W and 2W sales still higher over previous year	• Domestic consumption rebound continuing in 2023 • EV incentives give support to overall 4W and 2W sales • Local component minimum changes from 40% to 60% in the next year	• Crowded competition in the automotive industry • Vehicle tax in every 4W and 2W purchase
Banks	Over-weight	• Strong GDP growth (still close to 5%) will support loan growth, in our view • Big banks' good CASA condition may be potential catalyst for NIM improvement	• Probability of higher than expected NIM for big four banks • Loan growth still high single digit • Strong liquidity condition	• Rising cost of funds for some banks • Data security issue like happened in BSI • Rising asset quality risk from certain SOE

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Cons-truction	Under-weight	• Lack of catalyst, as new capital city development will be gradual	• If new capital city development get sped up	• High debt ratios • Negative sentiment due to WIKA and WSKT debt restructuring
Cement & Basic Industries	Under-weight	• Limitation of growth due to cement sales' sluggish recovery • Cement supply surplus over the demand makes cement price tend to decrease	• Coal DMO will impact to cement player efficiency • When cement demand from property increase	• Cement supply surplus tend happen in the long term

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Coal	Over-weight	• Coal price is still in high level • China re-opening and India coal import still high	• Bottoming economic data in China • Peaking production growth in China • Bottoming European gas price	• Coal royalty in progressive fee • China's economic data still showed under expectation
Con-sumer Staples	Over-weight	• Higher margin due to higher ASP and lower soft commodities prices • Strong (double digit) revenue growth, supported by elections campaign	• Election campaign-related spending starting in 2H23 • Lower soft commodities prices	• Wheat prices have started to rebound

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Energy Utilities (PGAS)	Over-weight	• Lower production will increase the oil price • Upstream segment might give support	• Oil price rebound • Oil production cut extend • Higher than expected distribution volume due to strong economic growth	• Lower oil price • Further pressure on distribution margin from government • Gas supply risk
Heavy Equip-ment (UNTR)	Over-weight	• Solid result in 2Q23, 13.3% (yoy) revenue growth • Mining service and coal sales continue to increase due to coal price still in high level	• Potential rebound in coal price • Coal and gold price still in high level	• Lower coal price from warm winter in Europe again in 4Q23 • Lower overburden volume

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

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Sector	Rating	Thesis	Catalysts	Risks
Health-care	Over-weight	• The market may turn to more defensive sectors such as healthcare if DM recession happens • Covid-19 is over and healthcare player succeed to adjust their revenue from non-Covid 19	• Hospitals will be benefited by BPJS INA CBG tariff adjustment • Recovery in non covid patient traffic continues • Positive sentiment from Healthcare Reform Bill	• If BPJS Kesehatan falls back to deficit
Metal	Neutral	• China reopening has not brought the expected rebound so far, thus need to see better China economic data • Concerns of DM recession pressure commodity prices	• Fed cut / pivot • Strong China economic data • Rebound in copper price	• Recession in US, Europe • Weaker than expected China economic rebound • Oversupply in class 2 nickel

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Oil & Gas	Neutral	• Oil production cut from some countries in OPEC and OPEC+ • Oil price tend to increase in since early 3Q	• Peaking Fed rate • Rebound in China economic data • India continue to increase the demand	• Recession in US, Europe • Weaker than expected China economic rebound
Property	Over-weight	• Good performance in 2Q23 supported by purchasing power improvement and BI rate peaked at 5.75%. • Attractive disc to NAV valuation	• Indonesia economic growth still robust • Company expansion after Covid-19 • Decrease of mortgage rate	• Political year

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Retail	Over-weight	• The massive expansion of outlets from some players. • Purchasing power improvement	• Sales growth recovery to pre-pandemic levels • Inflation continue decrease and close to the inflation target	• Higher wages bringing higher opex • Competition risks • Slow recovery frow low-middle class consumers in Indonesia
Telco & Tower	Over-weight	• The big 3 mobile network operators have continued to increase prices in 2Q23 • FMC as a good prospect for telco business	• Continued healthy pricing by operators • Improvement of internet penetration and user	• Better than expected economic growth may make investors shift to more cyclical sectors • If tower rent expenses increase

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Tech	Under-weight	• Era of low interest rate and abundant capital for tech companies is over, in our view, and these are consolidation times • Profitability is the main issue	• Fed cut / pivot • Better than expected path to profitability	• Fed staying hawkish for longer • Competition makes path to profitability more challenging

Source: Bloomberg, Companies, Avrist Asset Management

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