

MAINTAINING RESILIENCE

Avrist Asset Management Team

MARKET AND PRODUCT UPDATES
SEPTEMBER 2023

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Macroeconomic Outlook



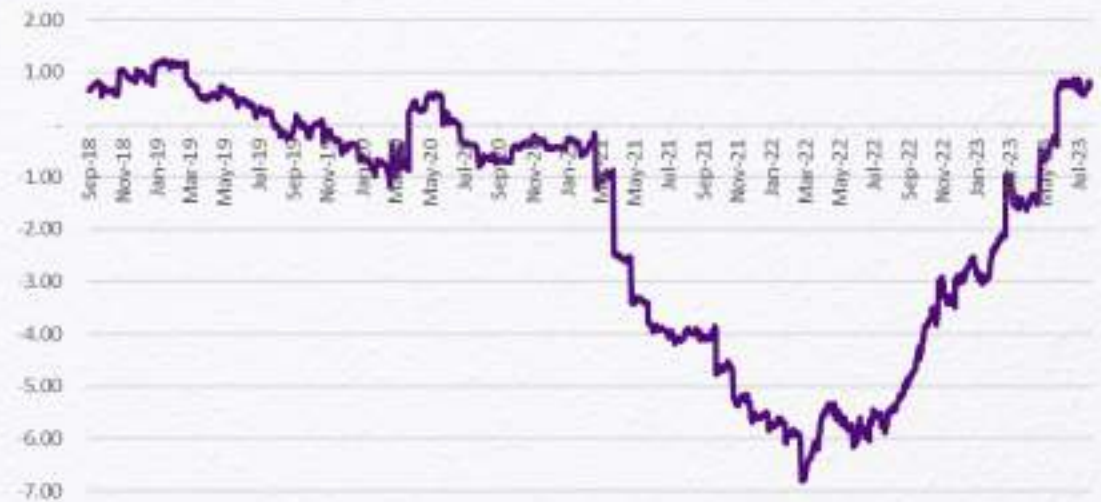
Global Backdrop: US Inflation Expectations Are Still Elevated

- Despite recent improvements in US inflation data, inflation expectations for the next 5 to 10 years are still elevated as shown by the 5Y5Y breakeven.
- US 10Y Treasury's real yield is also stuck at high level, in our view indicating market's realization that the fight against inflation is still not over (requiring higher rates).

US 5Y5Y Inflation Swap



US 10Y Real Yield



Source: Bloomberg

Some Progress In US Inflation

- Core PCE inflation in the US, which is the Fed's preferred inflation gauge, has shown some progress and trending down since last year, however the level is still above 4%
- US Core PCE services ex-housing, which can be said as "supercore inflation" are showing strength in labor market, and is still stuck in a range of 4-5% since last year

US Core PCE



UC Core PCE services Ex-Housing



US Economy Slowing But Still Showing Resilience

- Although the August US PMI reports slightly disappointed (manufacturing edging down from 49 to 47.9 and services from 52.3 to 51, the US economy is not decelerating as fast as many have feared.
- In services, demand slowed down, and firms still expanded their staffing but at the slowest pace in a year.
- In manufacturing, inventories, demand, and hiring continued to slow down.

US Manufacturing PMI



US Services PMI



Source: Bloomberg, Federal Reserves

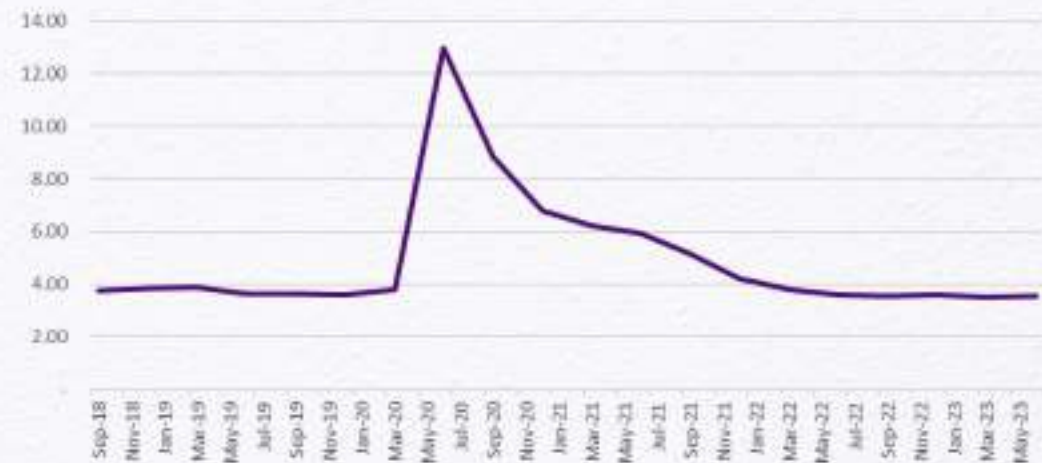
US GDP and Unemployment Still Looking Good

- US economy showed few signs of recession in the second quarter.
- GDP still grew above 2%, consumer spending was the strongest component, supported also by nonresidential fixed investment and government spending.
- Unemployment rate ticked up to 3.8% from 3.5%. This was caused by an uptick in labor force participation rate, indicating labor supply and demand are moving closer to balance.

US GDP Growth



US Unemployment Rate



European Economy Not As Resilient As US

- Eurozone's composite PMI for August was below expectations, on the back of a decline in services activity.
- The decline was led by Germany.
- The overall retreat in activity was the fastest since November 2020, and broad-based across the manufacturing and services sectors as the latter contracted for the first time in 2023 so far

Eurozone Composite PMI



Eurozone Consumer Confidence



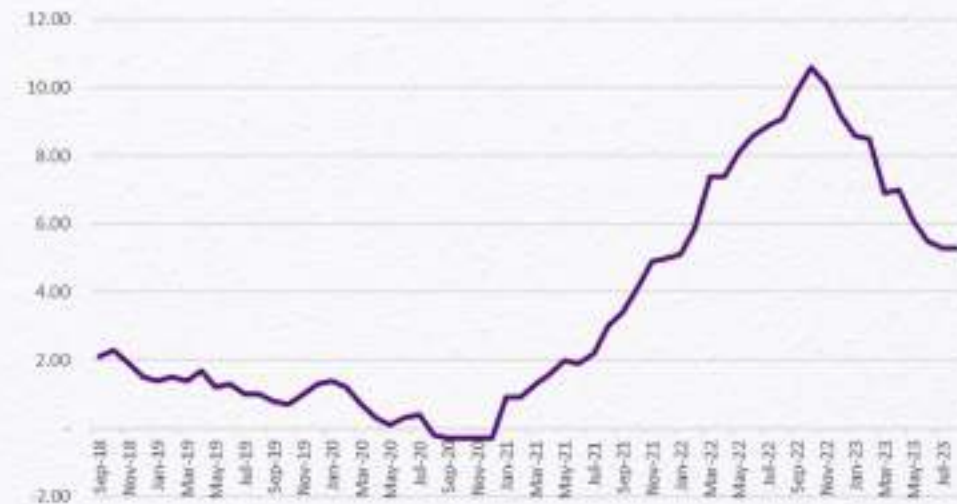
And Their Inflation Seems To Have Stopped Declining

- Germany, France, and Italy 10 year yields are still trading at relatively high levels as inflation is still stuck in above 5% level.
- Germany's HICP inflation was 6.4% yoy in August, above consensus expectations.
- Germany's services inflation still at 5.1% level, declined slightly from 5.2% in July.

Germany, France, Italy 10 Year Yield



Eurozone CPI YoY Source



China's Property Problems Spill Over

- As China's property market problems keep resurfacing, with Country Garden the latest high profile developer to miss bond payment, negative sentiment clouds global markets.
- While total social financing declined to lowest level in many years
- Policymakers have addressed this confidence problem by releasing many piecemeal measures, but no big stimulus yet

China Property Sales of Residential Building YoY



China All System Financing Aggregate - Net Monthly Change



Source: Bloomberg

Commodities Prices

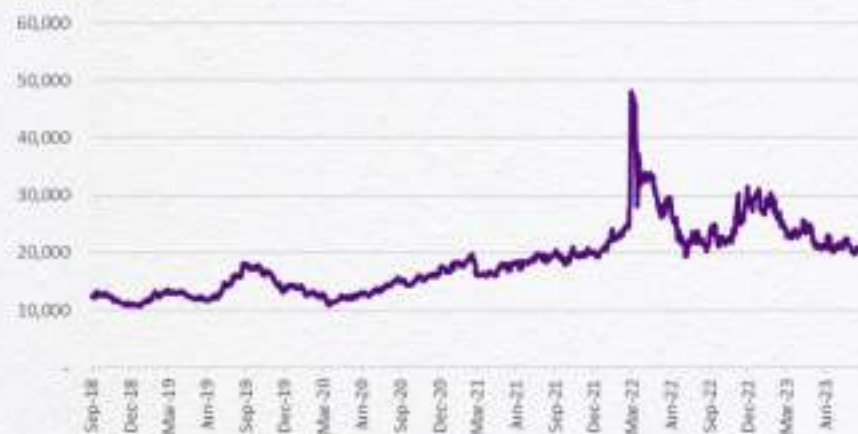
Brent Crude Oil



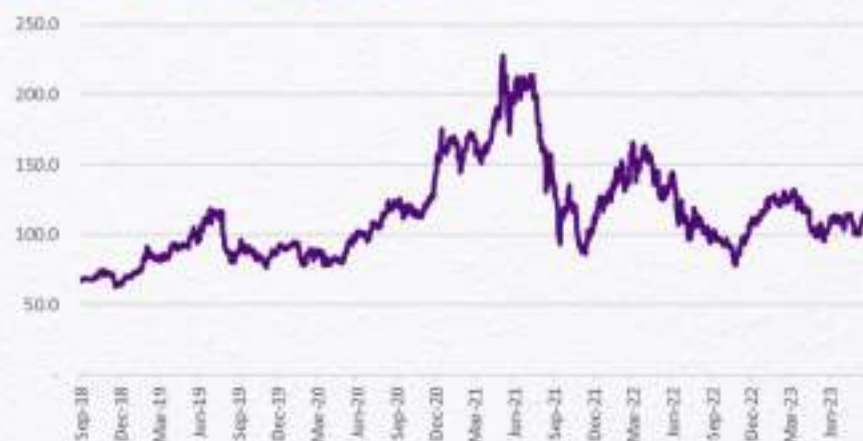
Copper



Nickel

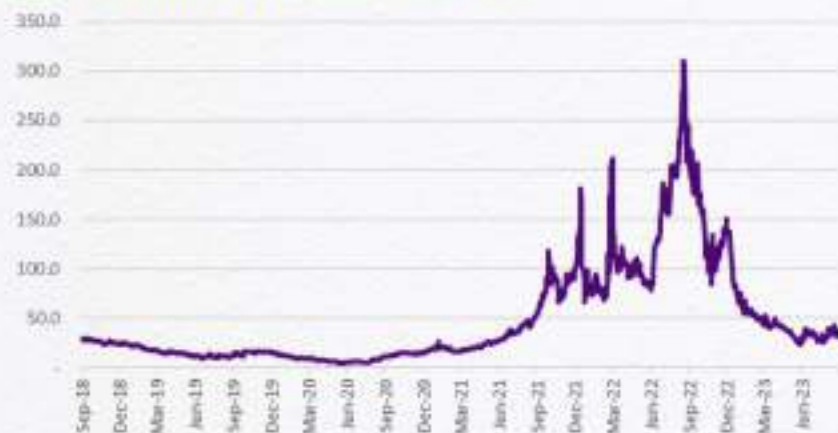


Iron Ore SGX TSI Futures

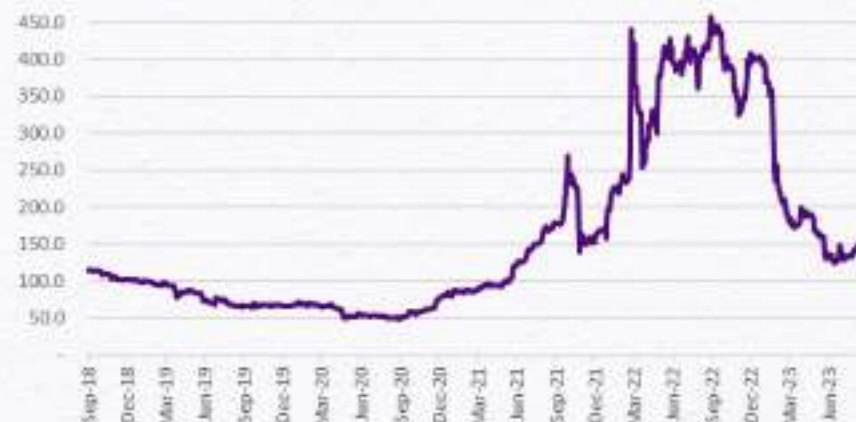


Commodities Prices

Netherland TTF Natural Gas



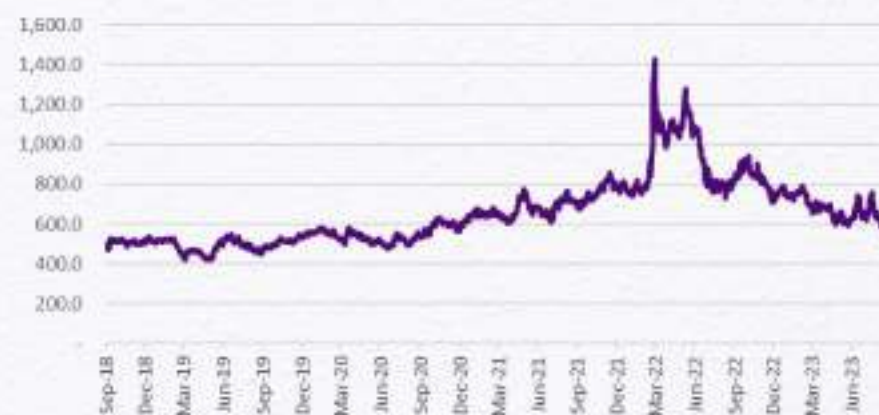
Newcastle Coal



CPO



Wheat



Meanwhile Indonesia Continue With Decent Growth and Controlled Inflation

- Indonesia's domestic demand was strong in 2Q23, and supporting the overall GDP to grow 5.2% yoy, with household consumption growing 5.2% and investment 4.6%.
- Indonesia's headline inflation rose to 3.27% yoy in August, with food inflation accelerating to 3.5% yoy from 1.9% in July

Indonesia Real GDP YoY



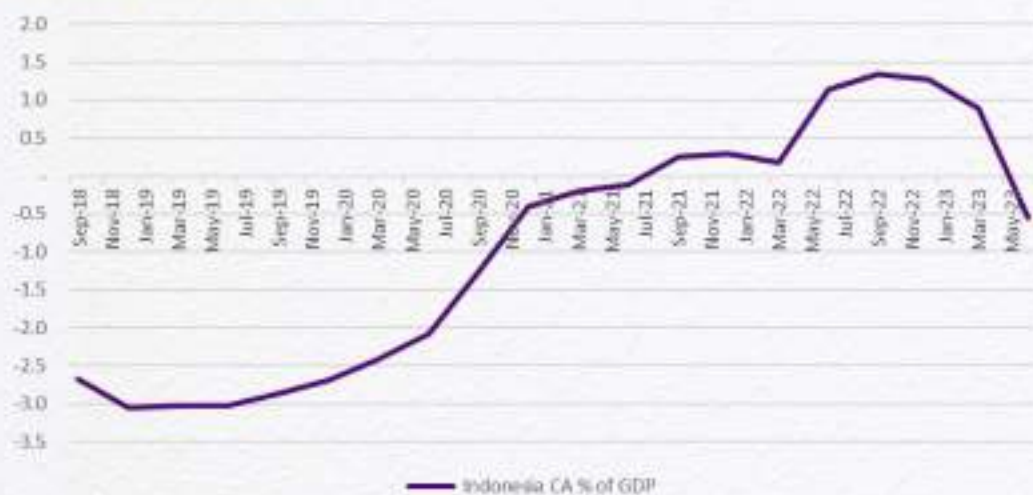
Indonesia CPI YoY



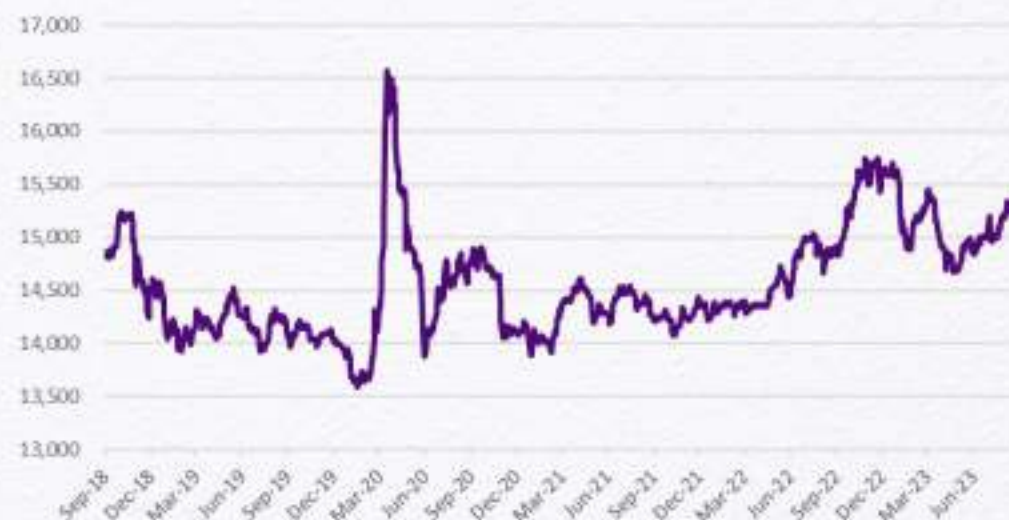
Indonesian Current Account Is Still Good

- Indonesia booked a current account deficit of USD 1.9 bn (0.5% of GDP) in 2Q23, slightly worse than consensus expectations of USD 268 mn (0.1% of GDP).
- Indonesia's relatively robust current account have supported IDR, but pressure from weak sentiment towards China and rising dollar index have weakened the currency in the last few weeks

Indonesia Current Account Surplus (Deficit) % to GDP



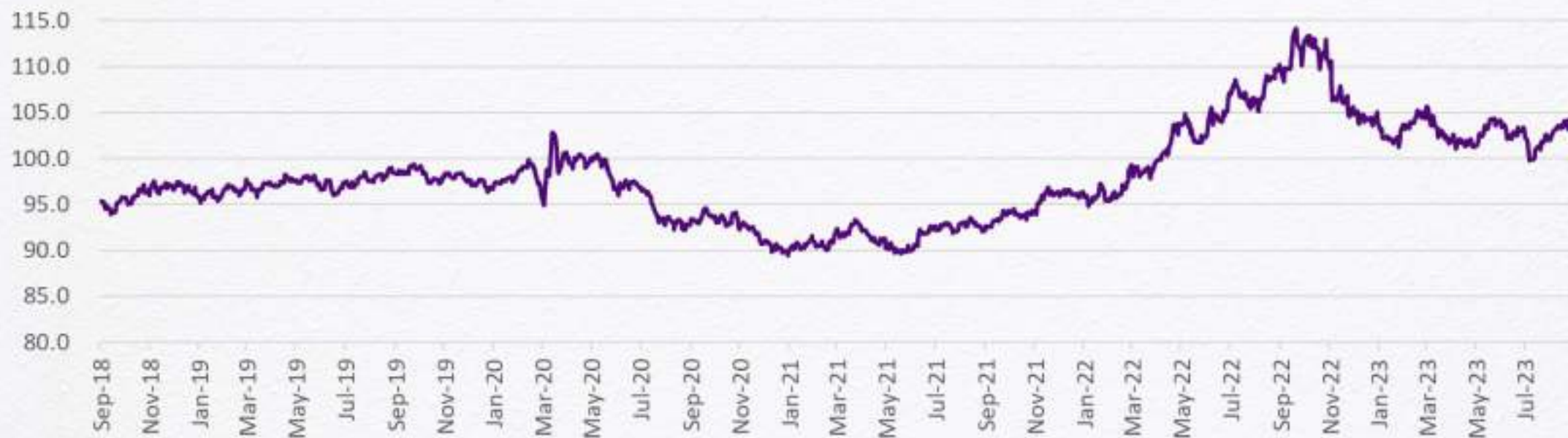
USDIDR



King Dollar Is Back

- The market has recently turned more upbeat on the US economy, and more downbeat on China
- Front end yields in the US also remain supported (2 year near 5%).
- We view that with more time passing without evidence of US economic activity weakening might result in continuing relative USD strength

US Dollar Index



Source: Bloomberg

Backdrops Summary:

Indonesian Economy Should Remain Resilient to External Challenges Such As China Property Market Problems and Rising Dollar

US Dollar Index

- 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

Bonds Market Outlook



Higher Volatility Impacted by US Market Dynamic

- Domestic bond market turned defensive following higher UST yield. The yields across the curve inched higher, but long end seems to be more supported.

IndoGB Composite Yield Movement



Composite	Yield				Yield Change - bps	
	Dec-22	Jun-23	Jul-23	Aug-23	MoM	YTD
2-Year	6.08	5.87	6.07	6.28	21	20
5-Year	6.20	5.91	5.99	6.19	19	(2)
10-Year	6.94	6.26	6.25	6.38	13	(56)
15-Year	6.84	6.48	6.43	6.49	6	(35)
20-Year	7.11	6.59	6.49	6.63	14	(48)

Yields Curve Tends to be Flatten

- The yield spread of 2/5 years and 2/10 years has been narrowing, resulting to more flattening yield curve. Historically, in the event of rate cut, the spread short-medium tenor should be started to be widening.

IndoGB Yield Spread - bps



Source: Bloomberg

IDR has been Relatively Well-Managed Relative to Peers' Country

- Despite recent weakness due to strong dollar, IDR is considered as remaining sheltered and provide positive YTD's return. Indonesia trade balance continue to register net surplus of USD 21.2 bn up to July-23, provide better cushion for IDR.

Asia Currencies Performance - YTD



Source: Bloomberg

Will BI be Able to Cut its Policy Rate This Year?

- We noted that domestic inflation has been well-managed and IDR also relatively intact, but we see that the probability for BI to cut its policy rate earlier than the FED is quite limited due to low real policy rate differential.

IDR vs DXY



The FED's DOTS



Is There Any Possibility for BI to Take Other Monetary Policy Twist This Year?

- Currently, banks' Reserve Requirement Ratio (RRR) is managed at 9.0%, the highest since 2009. If the banks' liquidity show a sign of tightening as indicated by higher trend of LDR, BI might need to adjust its RRR to add more liquidity in the system.

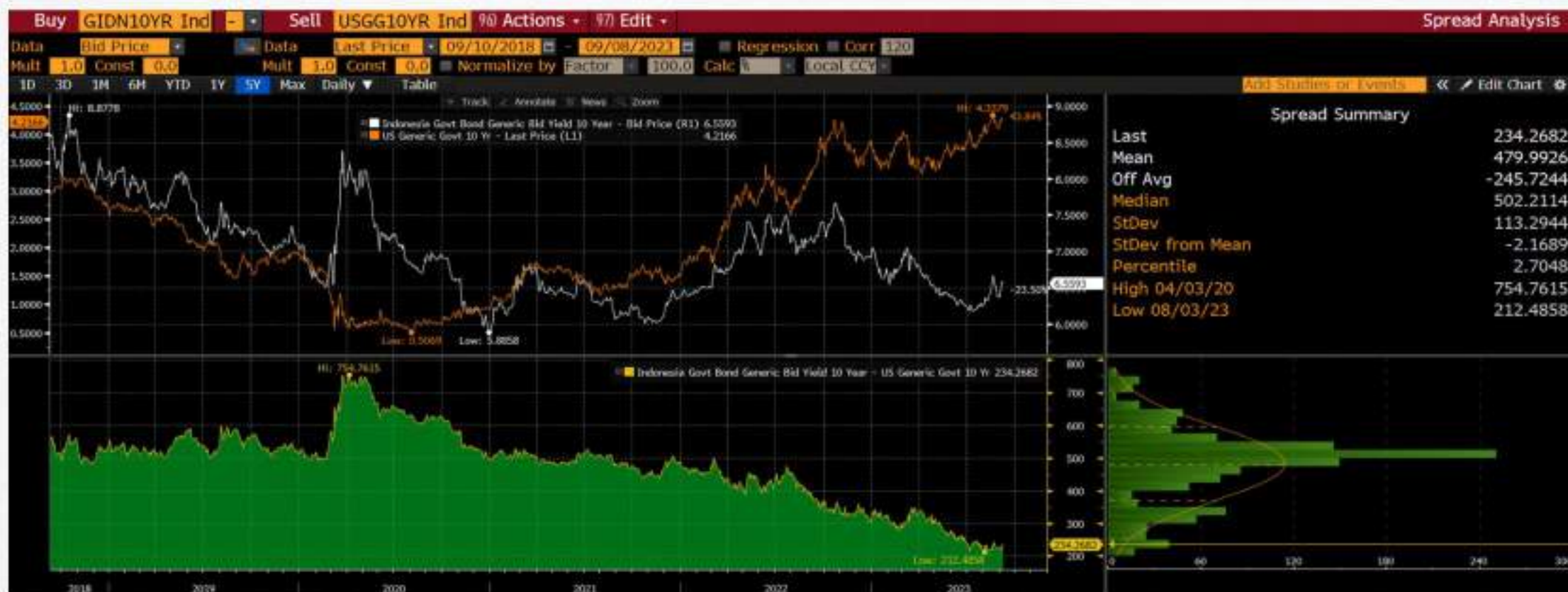
Historical Reserve Ratio vs Policy Rate



Source: Bloomberg

Key Support for IndoGB: Resiliency to Global Pressure

- Yield spread to UST yield has been narrowing to around 220-230 bps, much lower compared to pre-pandemic level. This indicates that IndoGB is awarded by investors due to country's solid macro backdrop

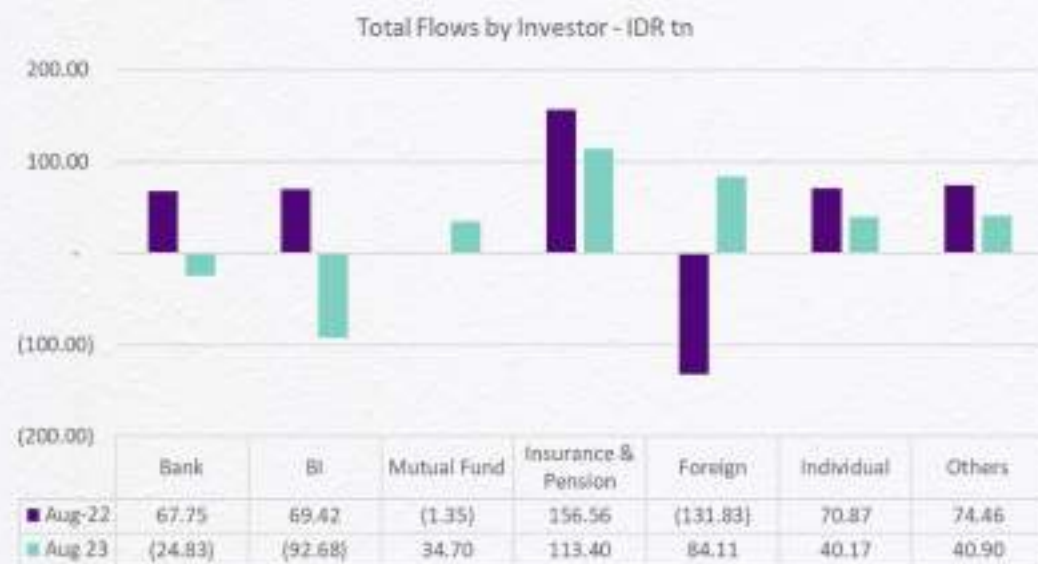


Source: Bloomberg

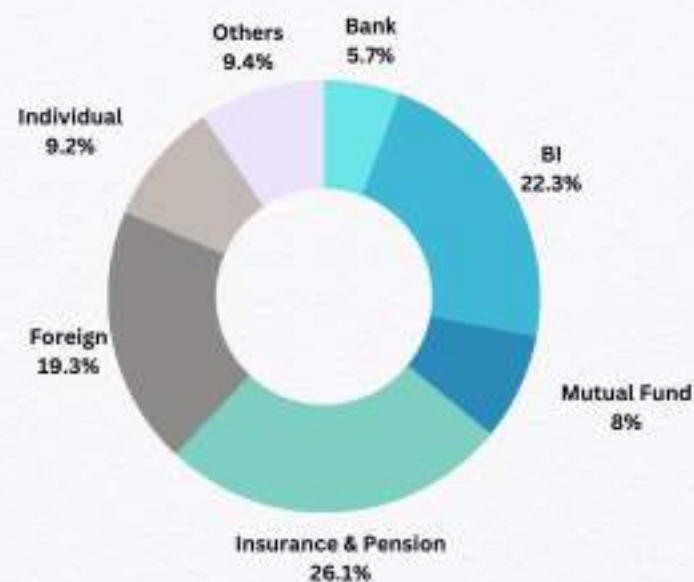
Key Support for IndoGB: Onshore Investor Remains Solid

- Insurance & Pension Fund is the biggest IndoGB's

YTD Net Inflows by Investor Type - IDR tn



Government Bond Ownership – Aug 23



Key Support for IndoGB is Foreigners!

- Up to 31 Aug 2023, total foreign inflows was reported IDR 84 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



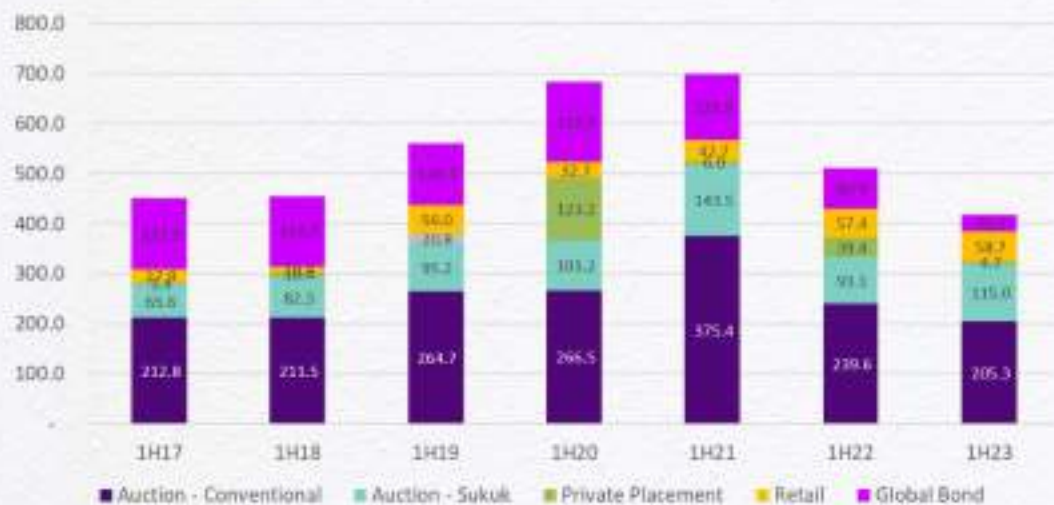
Source: Bloomberg

Key Support for IndoGB:

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: Bloomberg

Declining Trend of Bond Issuance

- YTD, total government bond Issuance (Conventional) has been declining from IDR 20 tn in early of this year to IDR below IDR 10 tn.

Historical Government Bond Issuance from Regular Auction – IDR Tn



Source: Bloomberg

Equity Market Outlook



The JCI Has Remained Relatively Stable Compared to China's and ASEAN Markets

- As China's economy goes through a rough patch, its markets become quite volatile, and ASEAN markets which are highly correlated, is also quite volatile in the past year.
- However, resilient domestic consumption in Indonesia has sheltered JCI

MSCI China vs JCI



MSCI China vs MSCI ASEAN



Source: Bloomberg

Equity Foreign Flow

- Foreign flow into Indonesian stocks has not matched late 2021 and early 2022 levels
- Crowded position in big banks and lack of catalysts in other big cap names are the reasons, in our view

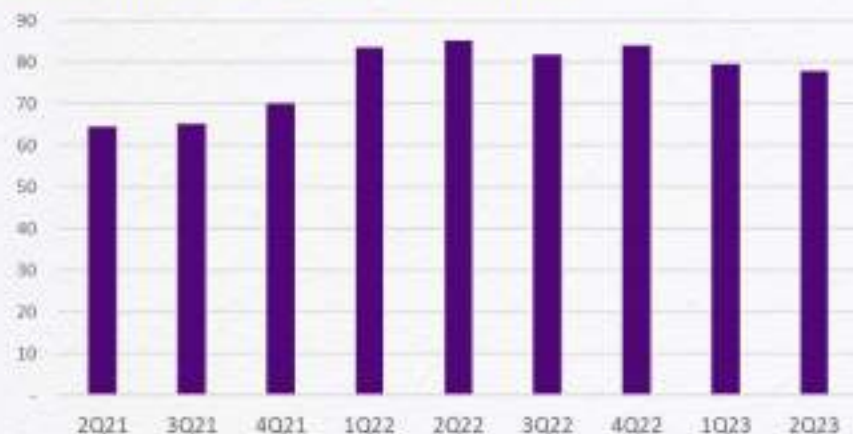
Indonesia Equity Foreign Flow Monthly



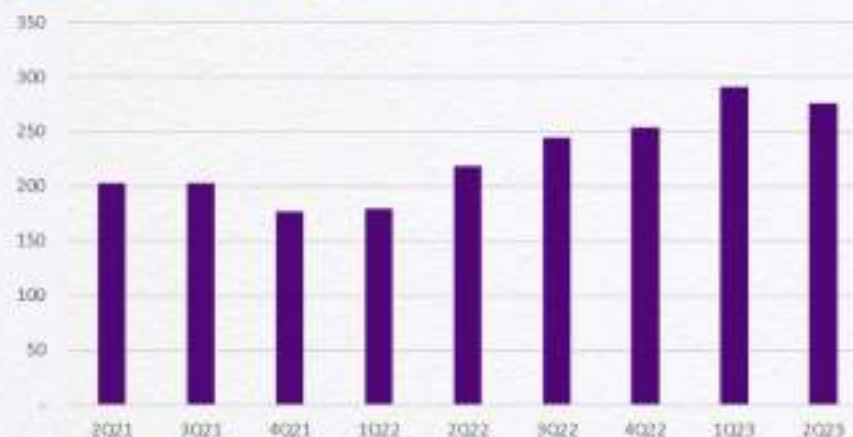
Source: Bloomberg

Revenue Trend by Sector

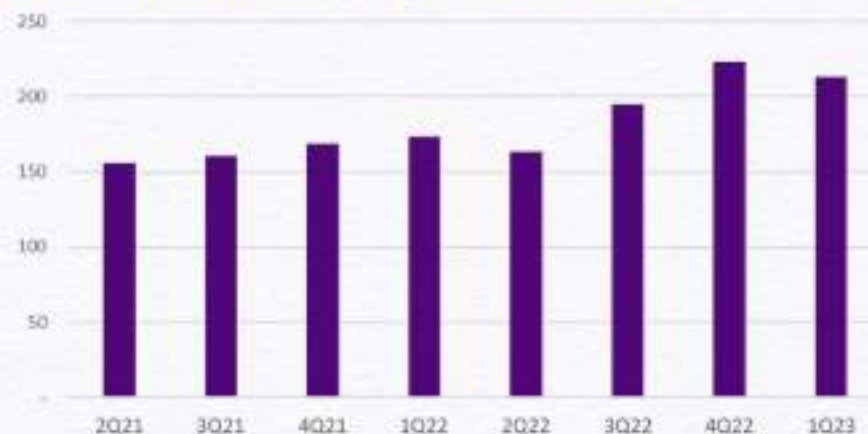
IDX Financials Sector Revenue



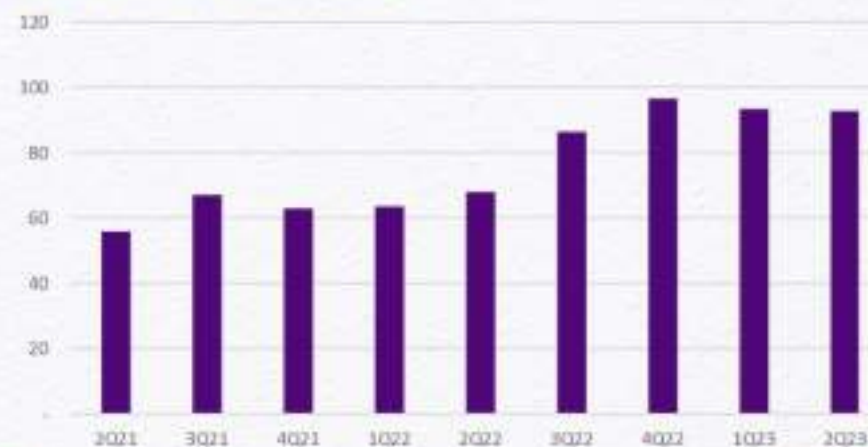
IDX Consumer Cyclical Revenue



IDX Consumer Non-Cyclicals Revenue

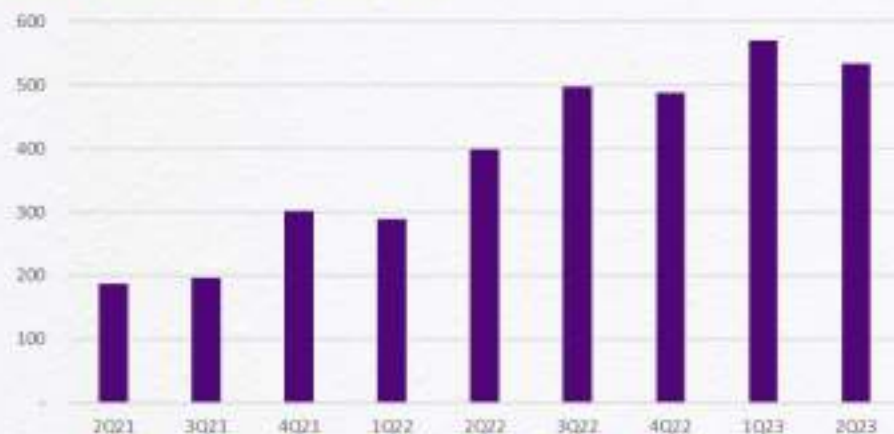


IDX Property Revenue

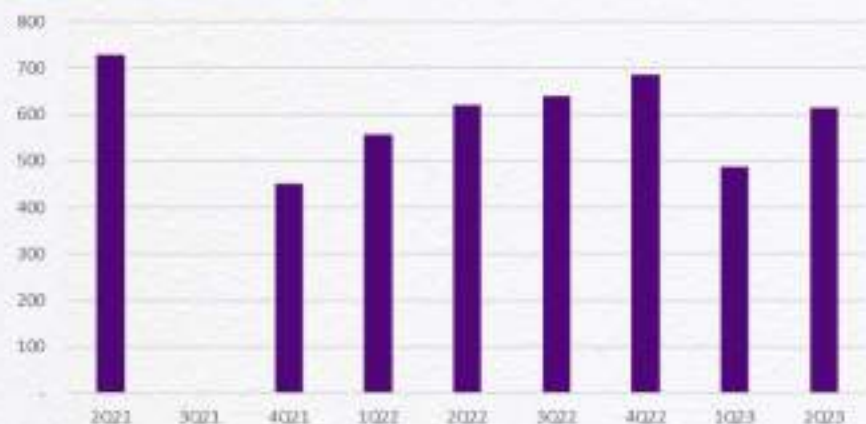


Revenue Trend by Sector

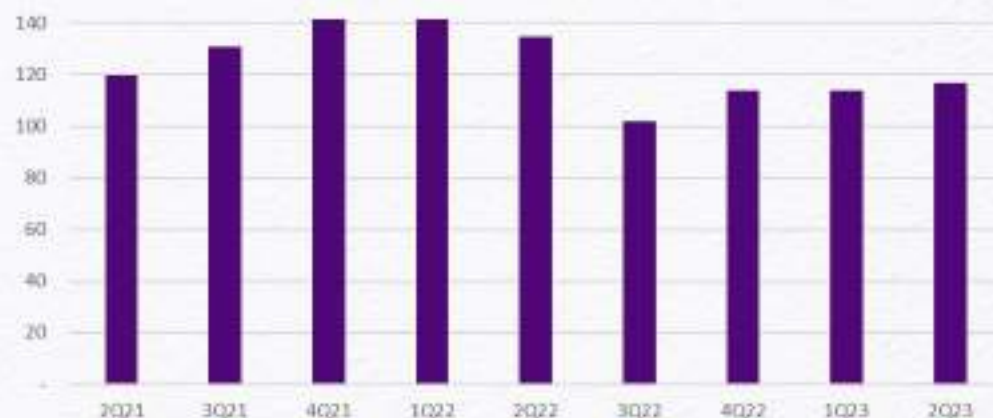
IDX Industrials Revenue



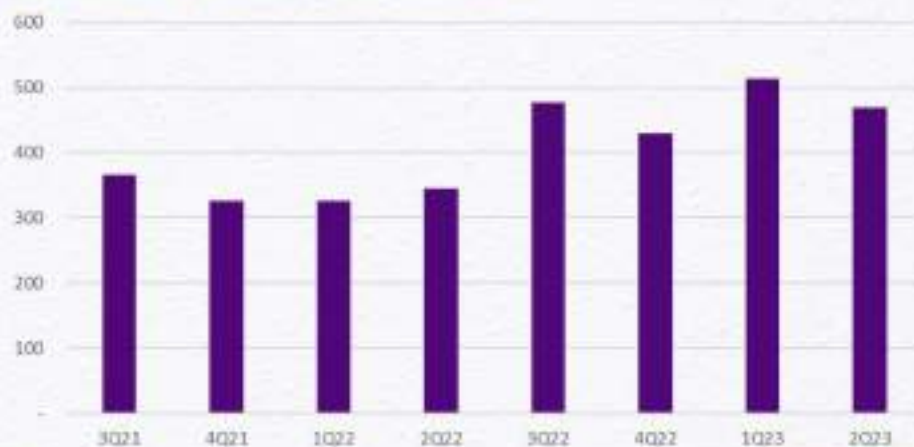
IDX Tech Revenue



IDX Healthcare Revenue

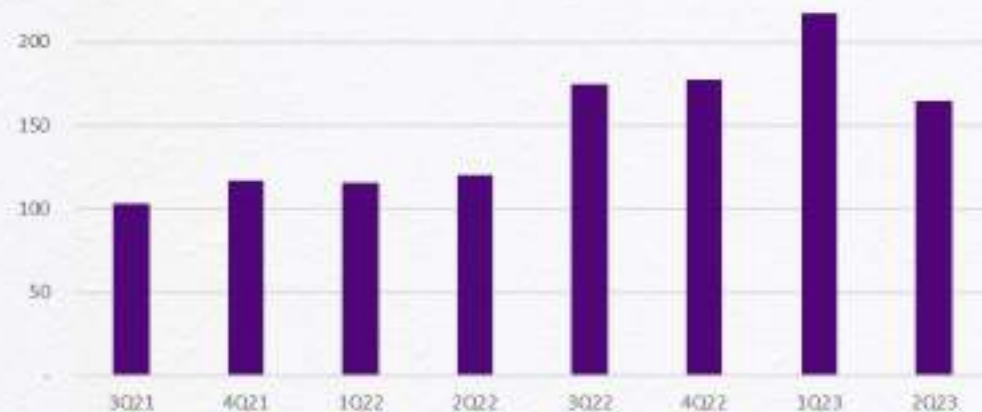


IDX Transportation Revenue

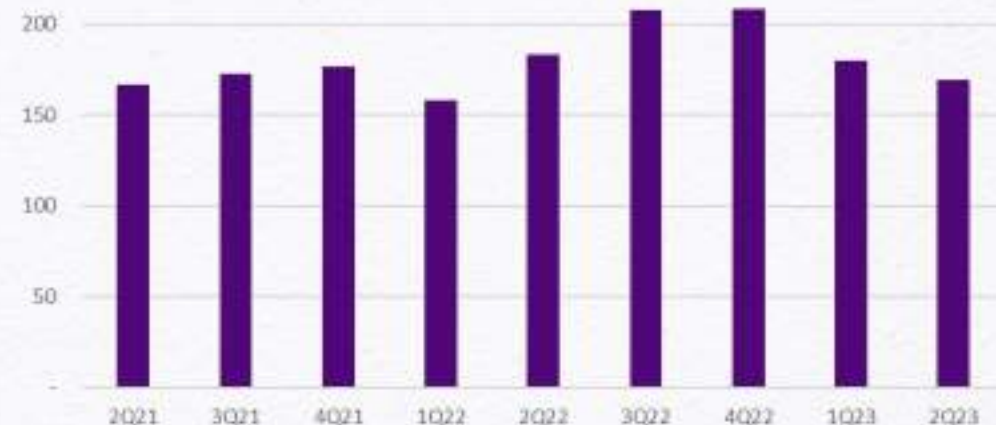


Revenue Trend by Sector

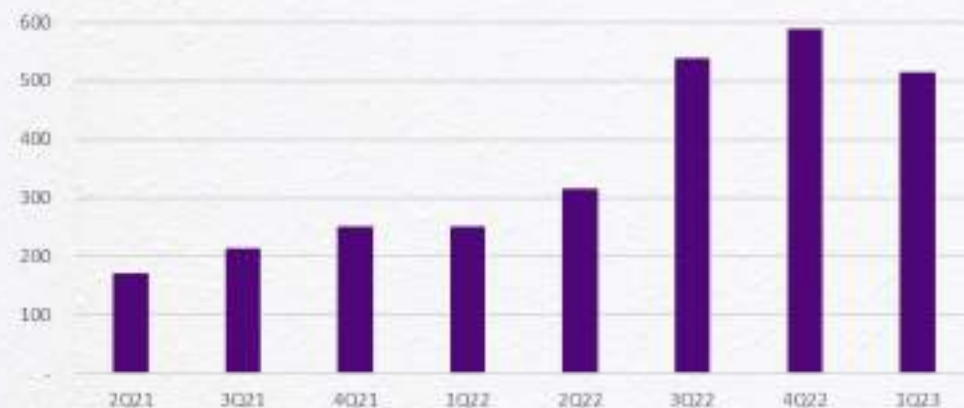
IDX Infrastructures Revenue



IDX Basic Materials Revenue

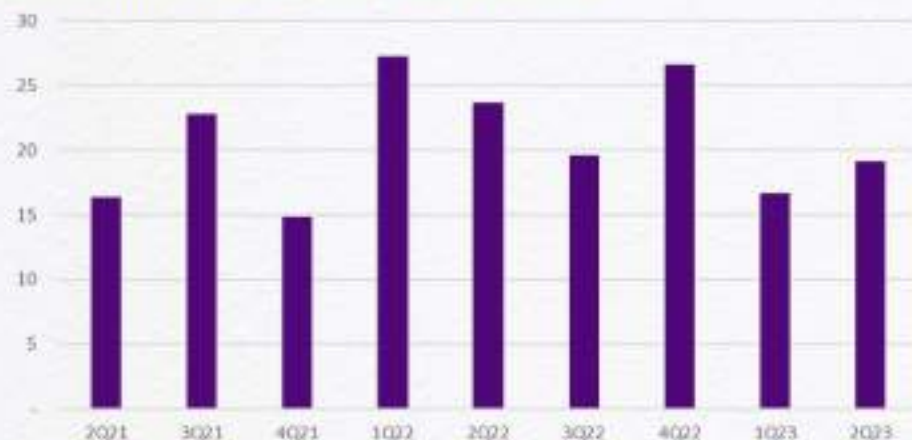


IDX Energy Revenue

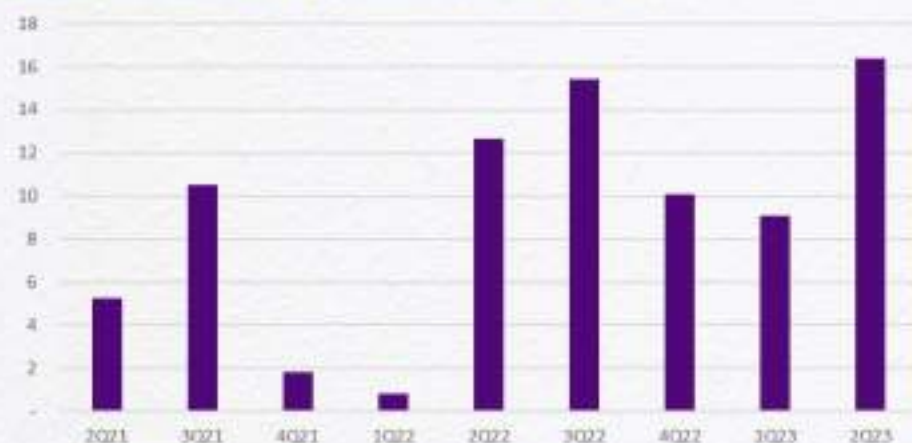


Net Profit Trend by Sector

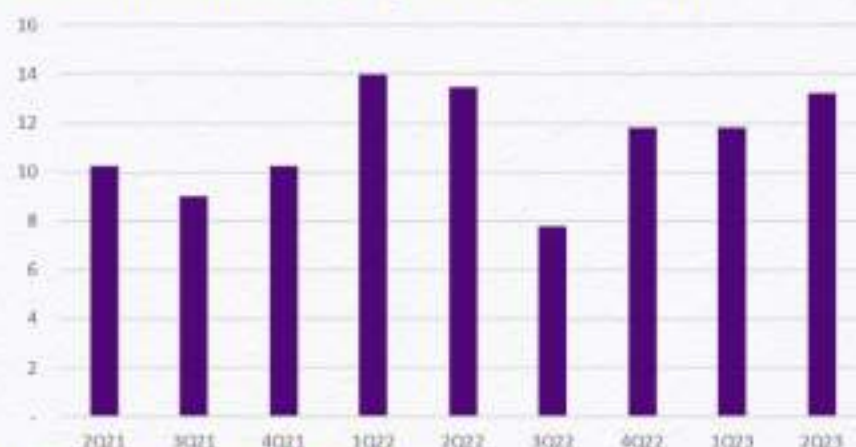
IDX Financials Sector Net Profit



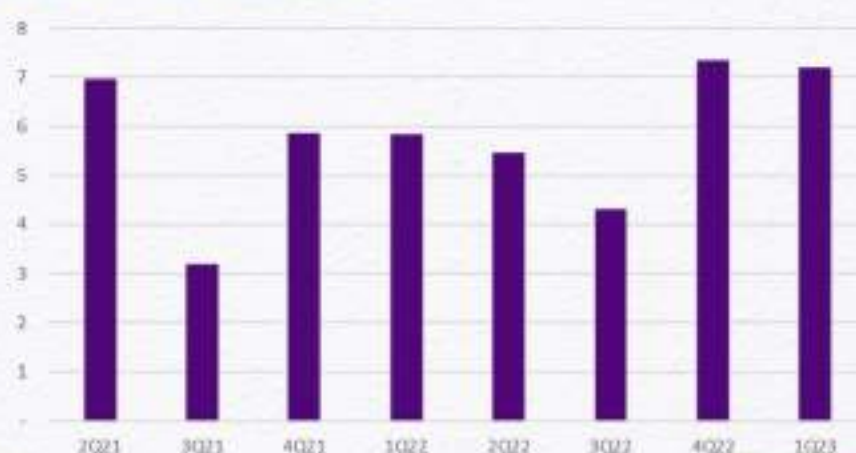
IDX Consumer Cyclical Net Profit



IDX Consumer Non-Cyclicals Net Profit

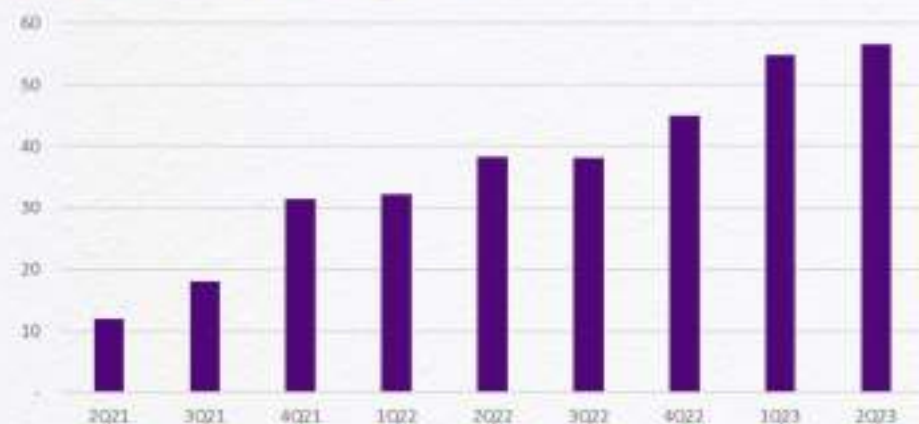


IDX Property Net Profit

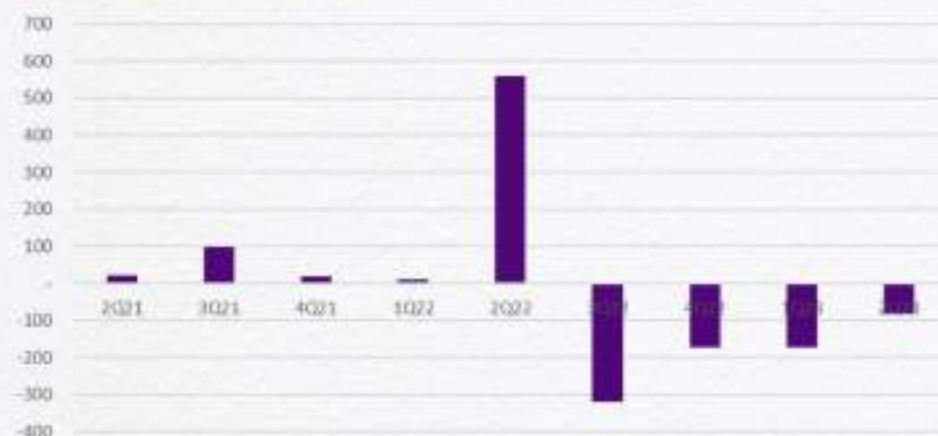


Net Profit Trend by Sector

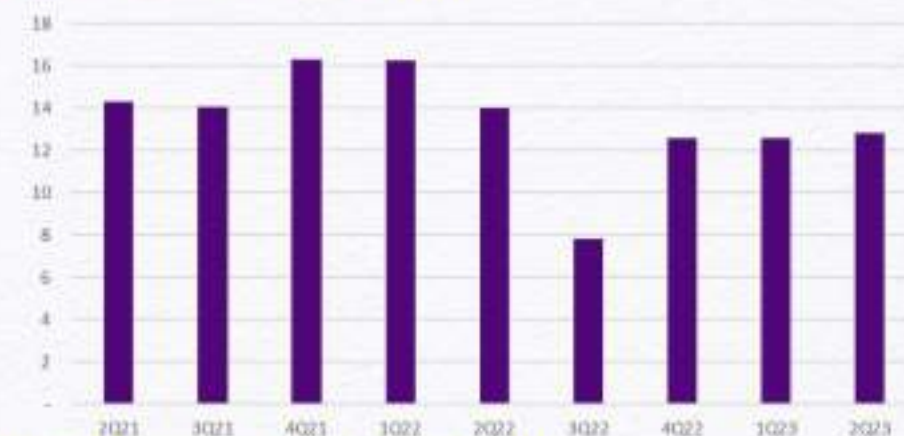
IDX Industrials Net Profit



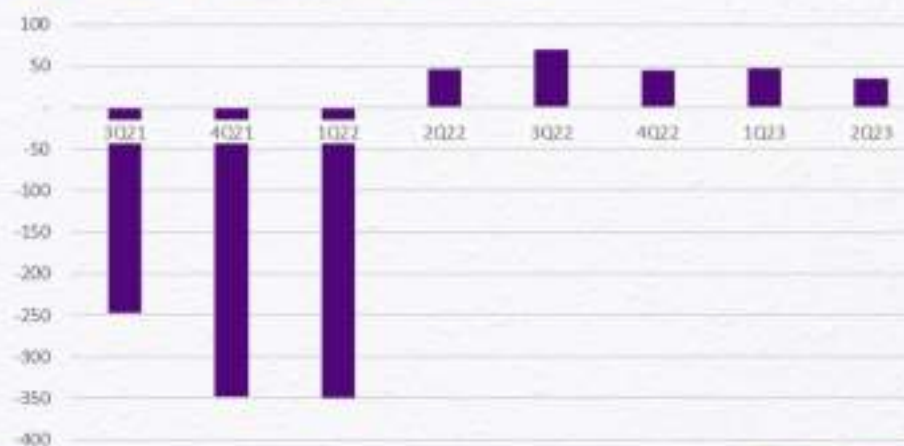
IDX Tech Net Profit



IDX Healthcare Net Profit

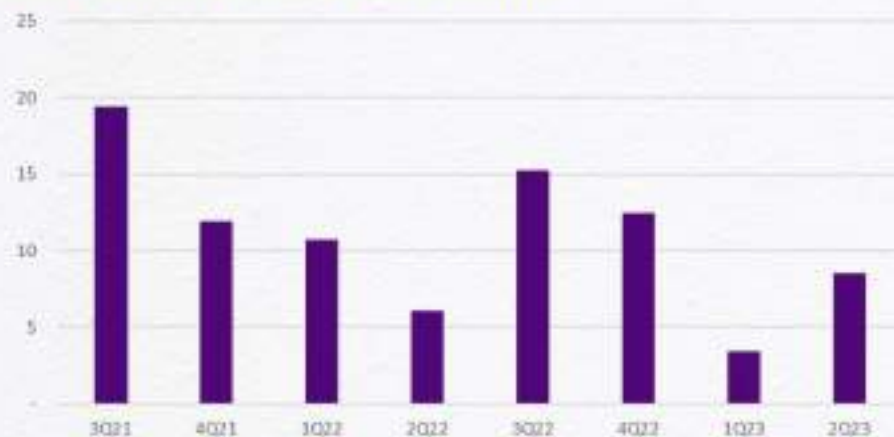


IDX Transportation Net Profit

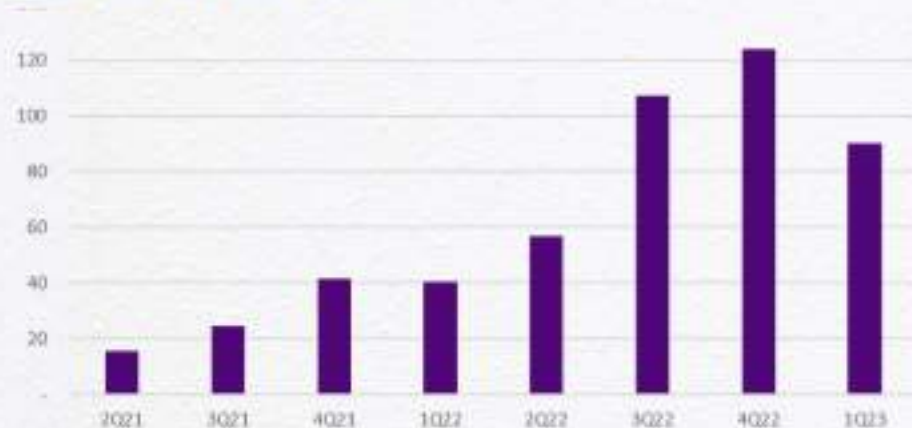


Net Profit Trend by Sector

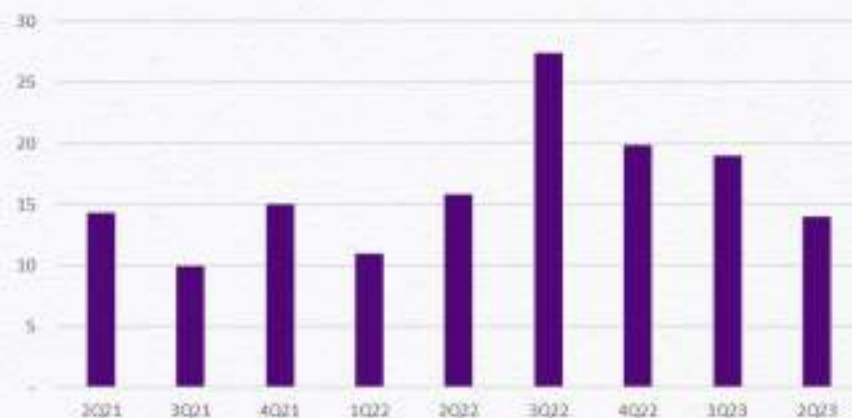
IDX Infrastructures Net Profit



IDX Energy Net Profit



IDX Basic Materials Net Profit



Valuation Trend by Sector

IDX Financials P/E



IDX Consumer Non-Cyclicals P/E



IDX Consumer Cyclical P/E

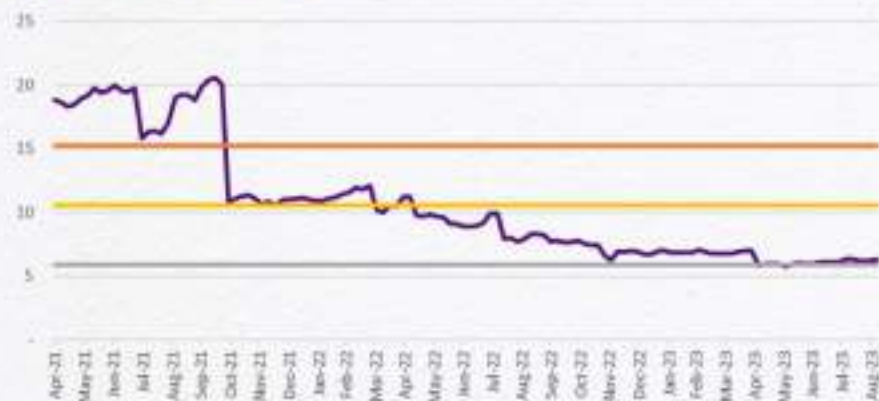


IDX Property P/E



Valuation Trend by Sector

IDX Industrials P/E



IDX Transportation P/E

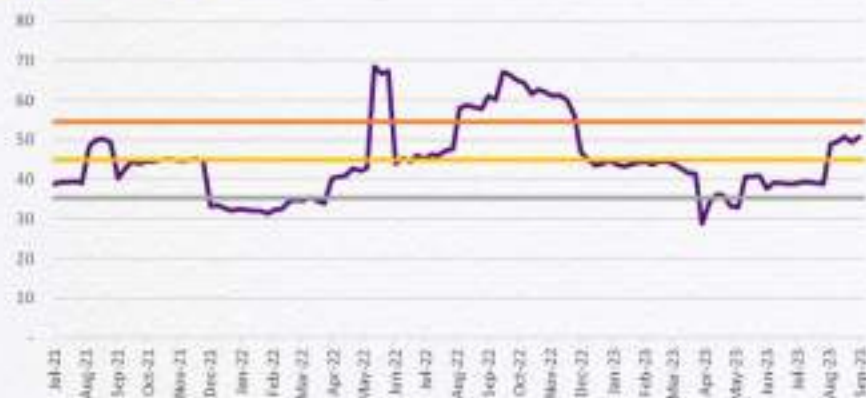


IDX Healthcare P/E



Valuation Trend by Sector

IDX Infra P/E



IDX Basic Materials P/E



IDX Energy P/E



Sectoral Outlook



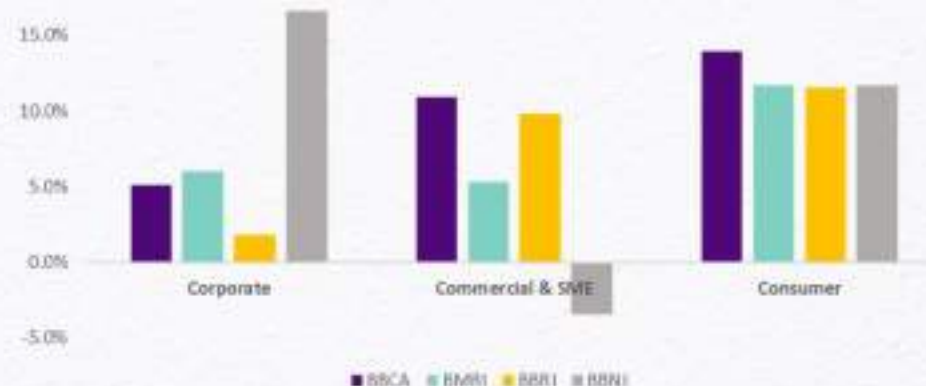
Banking Sector

Additional liquidity to push loan growth (Overweight)

Strong loan growth in Indonesia (YoY)



Loan Growth Trend



BBKA	1H22	1H23	BMRI	1H22	1H23
NIM	5.0%	5.6%	NIM	5.1%	5.3%
NPL	2.2%	1.9%	NPL	2.4%	1.5%
LAR	12.3%	8.7%	LAR	14.6%	10.3%
LDR	63.5%	65.7%	LDR	84.8%	85.7%

BBNI	1H22	1H23	BBRI	1H22	1H23
NIM	4.7%	4.6%	NIM	7.4%	6.8%
NPL	3.2%	2.5%	NPL	3.3%	3.1%
LAR	19.6%	16.1%	LAR	20.8%	15.1%
LDR	90.1%	85.1%	LDR	89.0%	87.8%

- Bank Indonesia projected that loan growth in Indonesia will be 9%-11% (yoy) in 2023F.
- Bank Indonesia has conducted slight easing in reserve requirement ratio, which we expect will impact banking liquidity and push loan growth.
- Banking sector has maintained good profitability and asset quality.

Technology Sector

Unsustainable business model (Underweight)

Profitability issue in technology sector

GOTO	1H22	1H23	BELI	1H22	1H23
Revenue	3,400	6,884	Revenue	6,712	7,776
EBITDA	(14,244)	(4,730)	EBITDA	(2,202)	(1,600)
Operating Profit	(15,782)	(6,109)	Operating Profit	(2,415)	(1,708)
Net Profit	(13,648)	(7,162)	Net Profit	(1,900)	(1,619)

BUKA	1H22	1H23
Revenue	1,691	2,181
EBITDA	(1,133)	(695)
Operating Profit	(1,187)	(701)
Net Profit	(1,203)	(394)

GOTO needs big incentive and promotion to push revenue (% revenue)



- We see that players in technology sector are still struggling with profitability. Companies like GOTO, BUKA, and BELI recorded losses until 1H23.
- It's due to unsustainable business model in technology sector, in our view. Companies need big discounts (incentive) and promotion to push the big revenue.
- When the companies decrease the discount and promotion or increase their take rate, it might result in market share decrease and positive profitability might be hard to achieve.

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Auto-motive	Over-weight	<ul style="list-style-type: none"> • Good result in 2Q23 with attractive valuation • 4W and 2W sales still growing over previous year • Government support for EV ecosystem 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Crowded competition in the automotive industry • Vehicle tax in every 4W and 2W purchase
Banks	Over-weight	<ul style="list-style-type: none"> • Strong GDP growth (still close to 5%) will support loan growth, in our view • Additional liquidity to increase loan growth 	<ul style="list-style-type: none"> • Probability of higher than expected NIM for big four banks • Loan growth still high single digit • Easing of reserve requirement ratio policy 	<ul style="list-style-type: none"> • Rising cost of funds for some banks • Data security issue like happened in BSI • Rising asset quality risk from exposure to certain SOE

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Construction	Underweight	<ul style="list-style-type: none"> Lack of catalyst, as new capital city development will be gradual 	<ul style="list-style-type: none"> If new capital city development get sped up 	<ul style="list-style-type: none"> High debt ratios Negative sentiment due to WIKA and WSKT debt restructuring
Cement & Basic Industries	Underweight	<ul style="list-style-type: none"> Limitation of growth due to cement sales' sluggish recovery Cement supply surplus over the demand makes cement price tend to decrease 	<ul style="list-style-type: none"> Coal DMO will impact cement players efficiency When cement demand from property increase 	<ul style="list-style-type: none"> Cement supply surplus tend to persist in the long term

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Coal	Neutral	<ul style="list-style-type: none"> Coal price is still in high level China economic growth below expectation 	<ul style="list-style-type: none"> Bottoming of China's economic data and sentiment Higher gas price 	<ul style="list-style-type: none"> Coal royalty in progressive fee China's economic data still come below expectation
Consumer Staples	Over-weight	<ul style="list-style-type: none"> Higher margin due to higher ASP and lower soft commodities prices Strong revenue growth, supported by elections campaign 	<ul style="list-style-type: none"> Election campaign-related spending starting in 4Q23 Lower soft commodities prices compared to 2022 	<ul style="list-style-type: none"> Wheat and other soft commodities 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	<ul style="list-style-type: none"> • OPEC+ cut production will increase the oil price • Upstream segment might give support 	<ul style="list-style-type: none"> • Oil price rebound • Oil production cut extend • Higher than expected distribution volume due to strong economic growth 	<ul style="list-style-type: none"> • Lower oil price • Further pressure on distribution margin from government • Gas supply risk
Heavy Equipment (UNTR)	Over-weight	<ul style="list-style-type: none"> • Solid result in 2Q23, 13.3% (yoy) revenue growth • Business expansion especially to nickel and renewable energy 	<ul style="list-style-type: none"> • Potential rebound in coal price • Coal and gold price still in high level 	<ul style="list-style-type: none"> • 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

Sector	Rating	Thesis	Catalysts	Risks
Health-care	Over-weight	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Hospitals will be benefited by BPJS INA CBG tariff adjustment Recovery in non covid patient traffic continues Positive sentiment from Healthcare Reform Bill 	<ul style="list-style-type: none"> If BPJS Kesehatan falls back to deficit
Metal	Neutral	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Fed cut / pivot Strong China economic data Rebound in copper price 	<ul style="list-style-type: none"> 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	Over-weight	<ul style="list-style-type: none"> Oil production cut from some countries in OPEC and OPEC+ Oil price tend to increase in since early 3Q 	<ul style="list-style-type: none"> Peaking Fed rate Rebound in China economic data India continue to increase the demand 	<ul style="list-style-type: none"> Recession in US, Europe Weaker than expected China economic rebound
Property	Over-weight	<ul style="list-style-type: none"> Good performance in 2Q23 supported by purchasing power improvement and BI rate peaked at 5.75%. Attractive disc to NAV valuation 	<ul style="list-style-type: none"> Indonesia economic growth still robust Company expansion after Covid-19 Decrease of mortgage rate 	<ul style="list-style-type: none"> Political year

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Retail	Over-weight	<ul style="list-style-type: none"> The massive expansion of outlets from some players. Purchasing power improvement. 	<ul style="list-style-type: none"> Sales growth recovery to pre-pandemic levels Inflation in target range faster than expected 	<ul style="list-style-type: none"> Higher wages bringing higher opex Competition risks Slow recovery from low-middle class consumers in Indonesia
Telco & Tower	Over-weight	<ul style="list-style-type: none"> The big 3 mobile network operators have continued to increase prices in 2Q23 FMC as a good prospect for telco business 	<ul style="list-style-type: none"> Continued healthy pricing by operators Improvement of internet penetration and user 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> • Era of low interest rate and abundant capital for tech companies is over, in our view, and these are consolidation times • Unsustainable business model impact to profitability 	<ul style="list-style-type: none"> • Fed cut / pivot • Better than expected path to profitability 	<ul style="list-style-type: none"> • Fed staying hawkish for longer • Competition makes path to profitability more challenging


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