A Rocky Road to Normalcy

Market & Product Updates

April 2024

Improvement in Avrist Asset Management

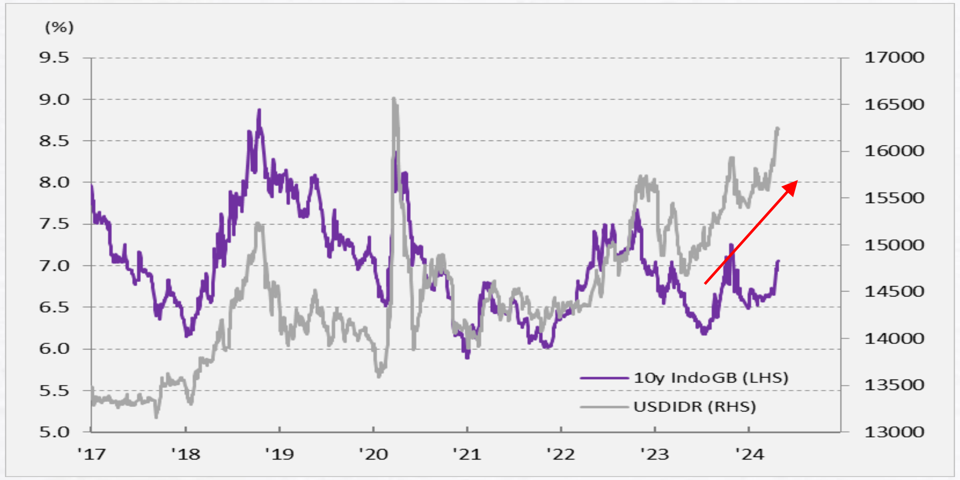
- Bonds Market Outlook
- Equity Market Outlook
- Sectoral Outlook

Bond 1

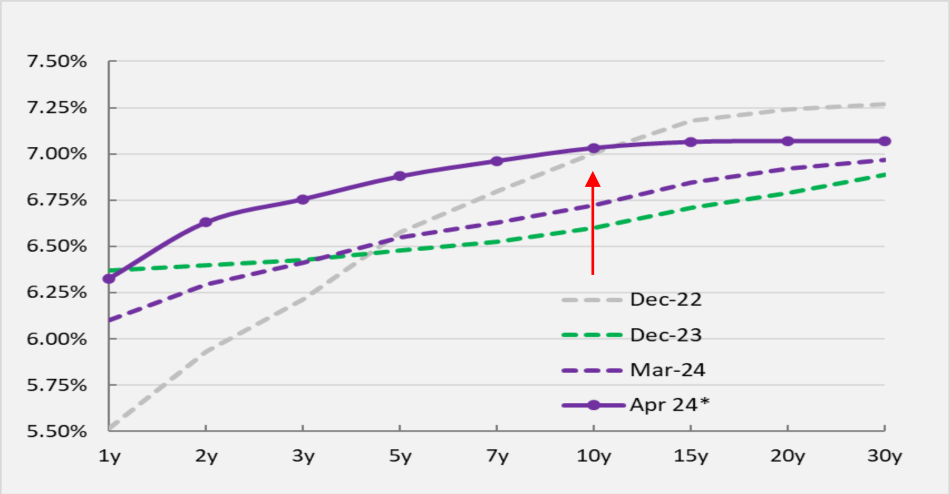
Market & Product Updates

What is happening in April 2024

Bond and rupiah hit by the Fed and geopolitics



Significant jump on the belly
as of 22 April 24

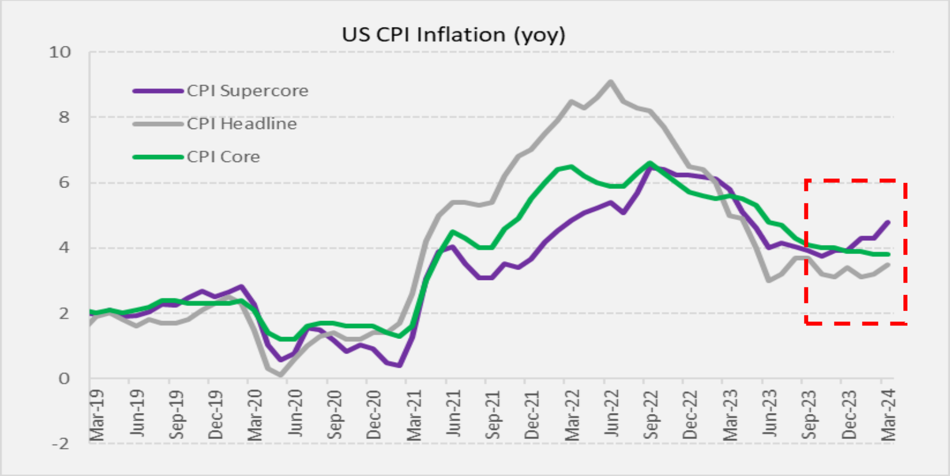


- **Yield volatility:** 10 year yield breached 7%, amidst lesser rate cut prospect and geopolitical risk
- **Curve movement:** significant jump in the belly, lesser increase in long end as **market factor in rate cut later this year**
- **Key driver:** 1) Fed rate cut delay 2) escalating geopolitical risk and 3) return of king dollar

Source: IBPA, Avram

Fed to delay rate cut (again)

Turnaround in inflation



Fed rate probability
as of 22 April 2024

CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES

MEETING DATE	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
5/1/2024			0.0%	0.0%	0.0%	0.0%	4.2%	95.8%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	16.2%	83.3%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.2%	6.4%	41.1%	52.3%
9/18/2024	0.0%	0.0%	0.0%	0.1%	3.2%	23.1%	46.5%	27.2%
11/7/2024	0.0%	0.0%	0.0%	0.9%	8.3%	29.1%	41.5%	20.2%
12/18/2024	0.0%	0.0%	0.5%	4.5%	18.5%	35.2%	31.0%	10.2%
1/29/2025	0.0%	0.1%	1.7%	8.9%	23.7%	33.9%	24.6%	7.1%
3/19/2025	0.1%	0.8%	4.7%	15.1%	28.0%	30.0%	17.2%	4.1%
4/30/2025	0.3%	1.9%	7.5%	18.6%	28.5%	26.5%	13.7%	3.0%

- Fed Chair Jerome Powell noted on April 16 that "given the strength of the labor market and progress on inflation so far, it is appropriate to allow restrictive policy **further time to work**."
- Sticky inflation, strong economic growth and geopolitical risk triggered the delay in Fed rate cut
- Market currently expect only two rate cut this year, shifting away from 5-7 rate cut in the start of the year

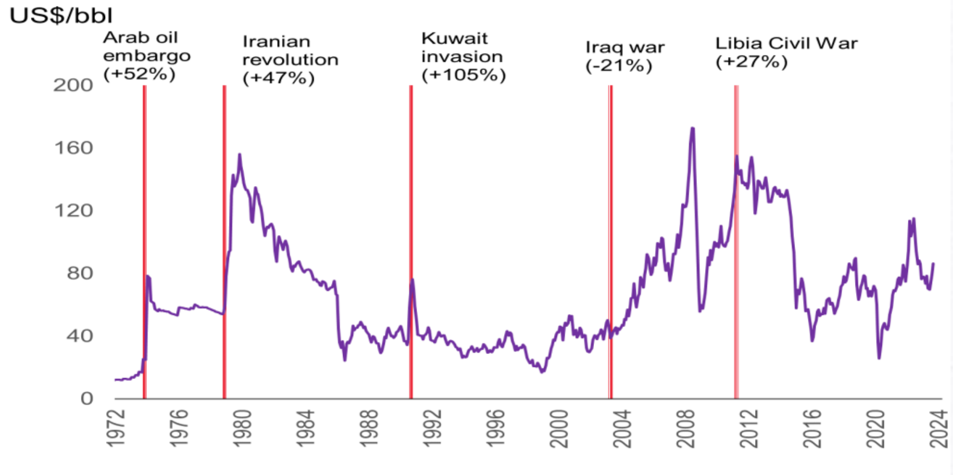
Source: BLS, Bloomberg, CME FedWatch

On the shadow of geopolitical risk

Scenario analysis

Scenario	Remarks/ Assumptions	Impact
Base Case (60% chance) Israel-Hamas conflict is resolved within next few months, US-Iran tensions do not blow up, trade routes remain largely unaffected.	Some uncertainty will continue to prevail in oil markets in near term, leading to volatility and spikes above US$90/bbl possible, but not sustained in our view, given the high surplus capacity building up in OPEC+	**US$80-85/bbl**
Bear Case Scenario 1 (30% chance) Conflict drags on for a longer period, Iran gets directly involved, US slaps stricter sanctions on Iran as proxy wars intensify in the region.	Iran exports could reduce by 0.5-1.0mmbpd if stricter sanctions are imposed. Saudi will likely not intervene in the market unless oil prices are well above US$100/bbl.	**US$85-95/bbl**
Bear Case Scenario 2 (10% chance) Conflict envelops other countries in the region, Iran intensifies operations, drawing response from the US, UK and other western powers.	In addition to sanctions on Iran, conflict could damage oil infrastructure or lead to blockages of key chokepoints in the Gulf of Persia like the Strait of Hormuz. Spikes of above US$130/bbl possible in the worst-case scenario.	**US$95-115/bbl**

Oil price and middle east conflict

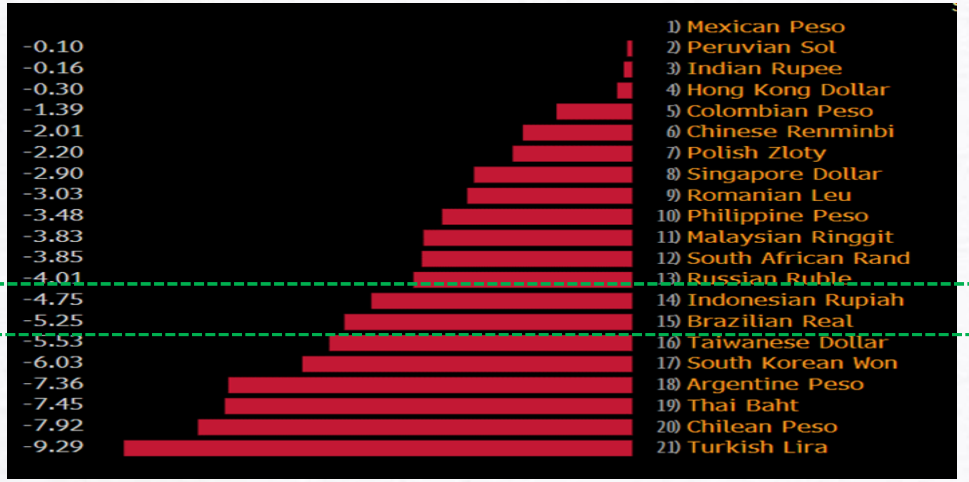


Source: World bank, Brent crude oil prices deflated by U.S. Consumer Price Index (CPI), 100 = January 2022.

- Base case : mild impact expecting markets to recover into year-end 2024 as central banks gradually cut rates
- Recent conflict in ME have less severe and more short-lived impact on oil prices, due to more diversified energy producer and the global economy become less reliant on crude oil as energy source.

The return of king dollar

USD vs emerging market



DXY impacted by higher UST yield

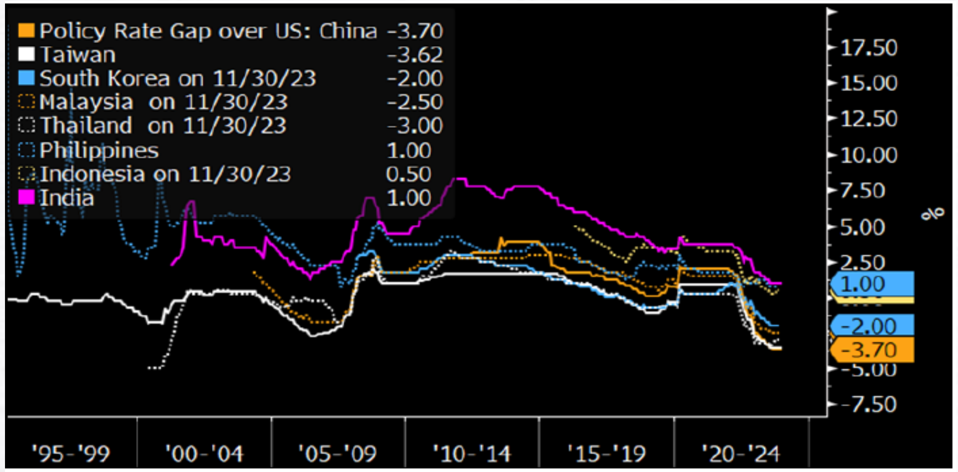
- Prospects of lesser rate cut and geopolitical risks have taken USD stronger across the board
- Asian currencies with wider policy-rate gaps over the US could be more resilient

Source: Bloomberg, IMF, Avram.

Twist on the BI policy rate

avrist Asset Management

Policy rate gap over US in Asian countries



Foreign outflow from IDR bond continues

Institution	Jan-24	Feb-24	Mar-24	Apr-24	YTD	% of Net buy/sell in 2024
	2024					
Banks	31.8	16.0	-43.7	-4.8	-0.7	-0.8%
Bank Indonesia	8.5	31.4	-2.4	3.4	40.9	47.3%
Mutual Fund	0.2	2.4	-2.0	-0.4	0.2	0.2%
Insurance & PF	12.2	6.2	1.6	3.0	22.9	26.5%
Foreign Investors	-0.2	-4.8	-26.4	-13.1	**-44.4**	-51.4%
Individual	5.4	17.2	-4.0	26.2	44.8	51.8%
Other	7.5	11.3	2.4	1.5	22.8	26.4%
Total	**65.4**	**79.6**	**-74.5**	**15.9**	**86.5**	**100.0%**

- Geopolitics and delay in US Fed rate cut have led to sizeable foreign outflow
- Increasing the rate gap with the US, might not be the ultimate solution, but might help stem foreign outflow
- Given the attractive yield and IDR level, foreign outflow might be reversed shall geopolitical risk and Fed uncertainty recedes

Source: Bloomberg, *DJPPR, Avram*

Short Term Strategy

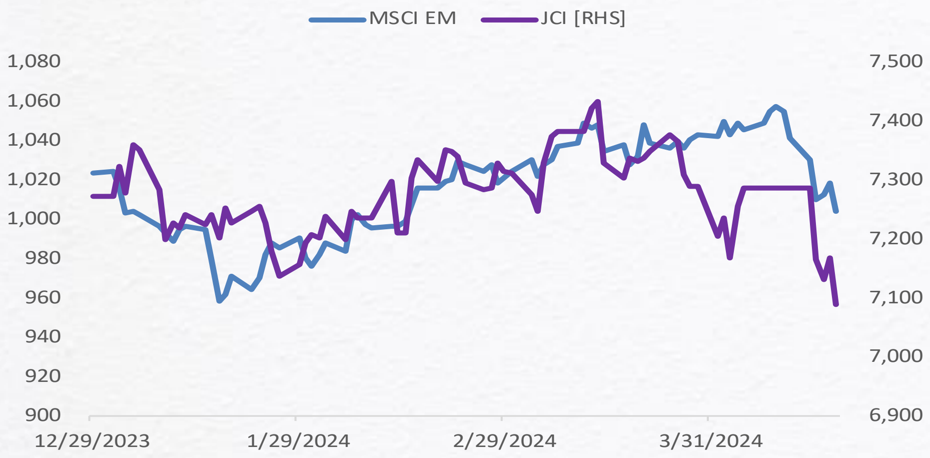
- Maintaining portfolio duration at 90%-105% of benchmark duration
- Tactical trading in 5-10 years as the yield spread to longer tenor is considered remain attractive.
- Cash level > 10% across funds
- Adding exposure in the high-quality corporate bond to mitigate volatility risk while to enhance portfolio yield

Equity 2

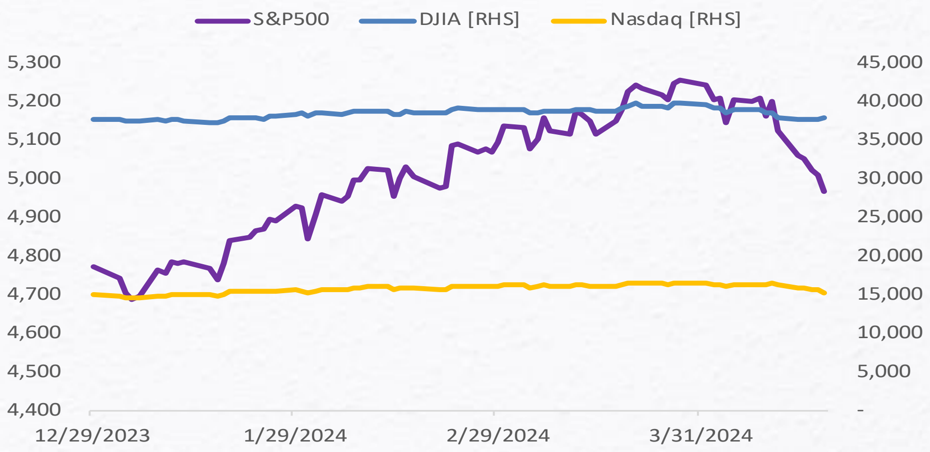
Market & Product Updates

Equity Market Performance Both in 1Q24 and YTD

JCI and EM equity market have a positive return in 1Q24, but recorded negative YTD return



US equity market started strongly in 1Q24, but exhibited a downtrend in April.

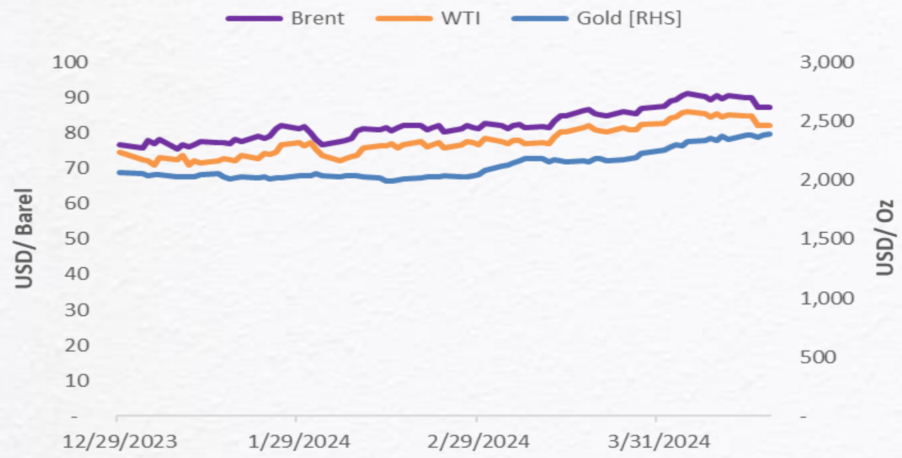


- The JCI saw a slight increase of +0.2% in 1Q24, but experienced a decline of -2.6% year-to-date (YTD). A similar trend was observed in the stock indices of the US and emerging markets. The Dow Jones Industrial Average (DJIA), Nasdaq, and S&P 500 each recorded positive performances of +5.6%, +9.1%, and +10.2% respectively in 1Q24. However, their gains moderated to +0.8%, +1.8%, and +4.1% YTD. We attribute the decline observed in April 2024 to heightened geopolitical tensions in the Middle East and uncertainty on Fed’s next move.

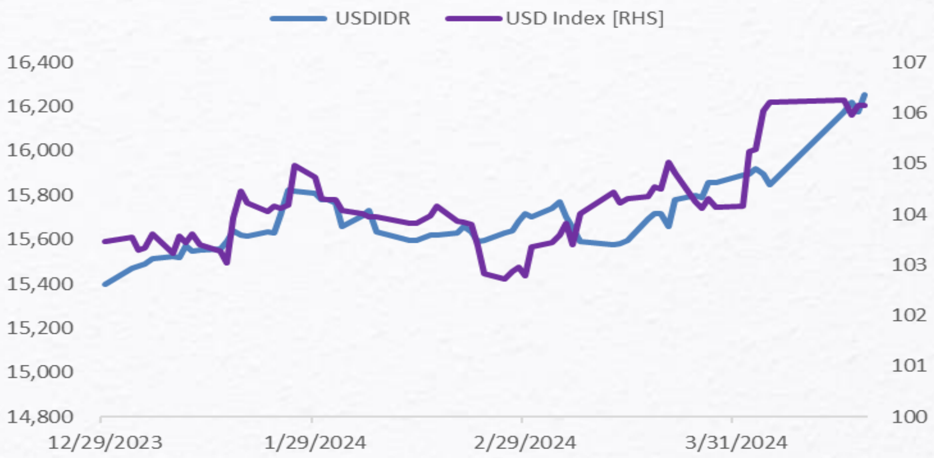
Source: Bloomberg

The Escalation of Geopolitical Tensions in the Middle East

Oil price tend to stabilize and gold tend to increase during Middle East Geopolitical Tensions in April 2024



Rupiah significantly impacted by Geopolitical Tensions in April 2024 along with Fed uncertainty

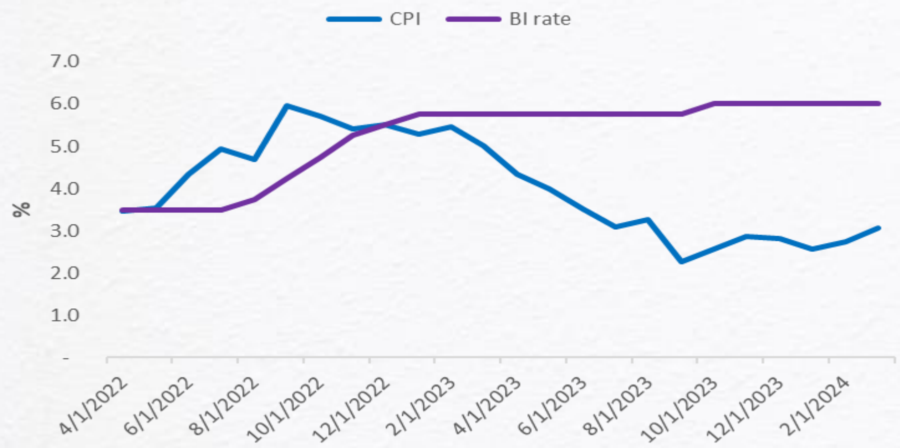


- As we are aware, there has been an escalation in geopolitical tension in the Middle East after Iran attacked Israel on April 14, 2024. This incident has raised concerns about the potential increase in oil and gas prices, disruption of the global supply chain, and heightened global uncertainty. These conditions entail the possibility of a resurgence in inflation and, coupled with doubts of Fed decision, catalyzed a shift in investment towards safe-haven instruments and weakened the Rupiah.

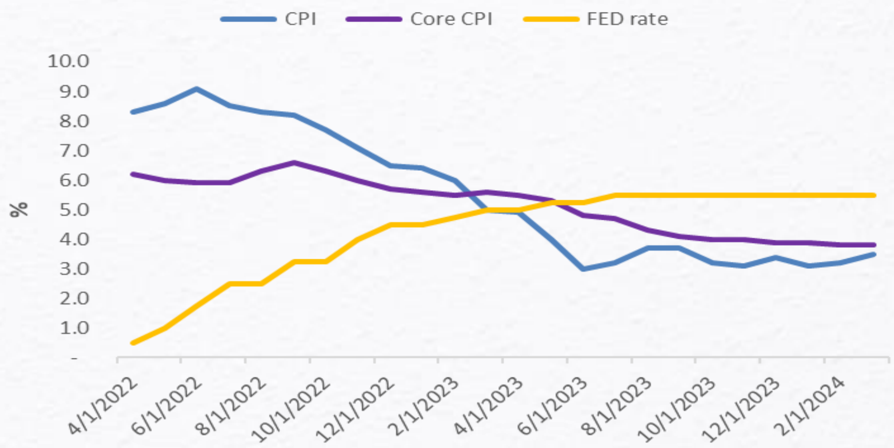
Source: Bloomberg

Inflation is still High, Interest Rate Cut Uncertainty is Back

Indonesia's inflation increased from 2.8% on Feb 2024 to 3.1% on March 2024



US inflation increased from 3.2% on Feb 2024 to 3.5% on March 2024

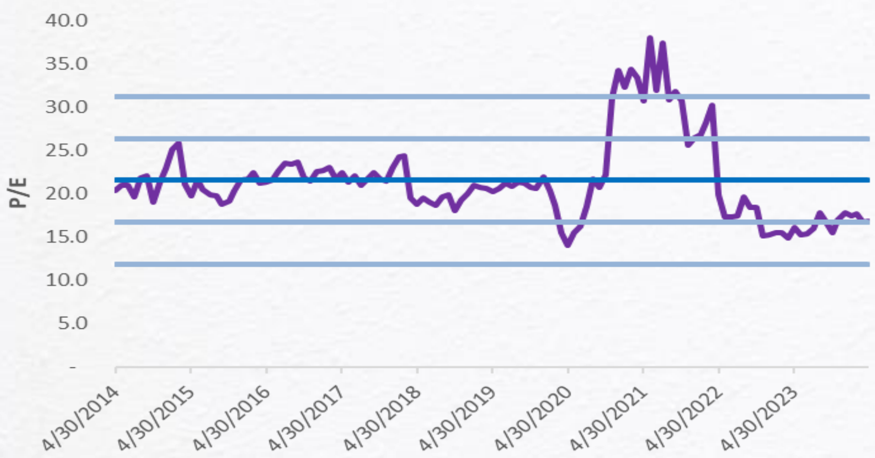


- For Indonesia, the possibility of accelerating inflation due to imported prices is increasing. Recent data has indeed shown an increase, with both Indonesia and the US experiencing rises of 3.1% and 3.5% respectively as of March 2024. This situation has heightened uncertainty regarding central bank interest rate cuts. Some economists even predict the possibility of an increase in the BI interest rate to maintain the stability of the rupiah.

Source: Bloomberg

JCI Still Offers an Attractive Valuation

JCI has attractive valuation in -1SD P/E area



JCI is still interesting compared to peers in terms of valuation

	P/E 2024F (x)	ROE 24F (%)	Dividend Yield (%)
Hang Seng	8.3	10.1	4.5
FTSE Straits	10.6	9.9	5.5
Shanghai Comp	10.8	10.8	3.4
KOSPI	10.8	8.3	2.4
PSEi (Phill)	11.0	12.3	2.8
JCI	**13.1**	**14.5**	**4.7**
FTSE Malay	13.7	9.6	4.3
SE Thai	14.6	9.0	3.5
Nifty 50	20.8	15.8	4.4
Nikkei 225	21.8	9.4	1.8

- For Indonesia, the possibility of accelerating inflation due to imported prices is increasing. Recent data has indeed shown an increase, with both Indonesia and the US experiencing rises of 3.1% and 3.5% respectively as of March 2024. This situation has heightened uncertainty regarding central bank interest rate cuts. Some economists even predict the possibility of an increase in the BI interest rate to maintain the stability of the rupiah.

Source: Bloomberg

Fishing For Opportunity In Some Sectors

Favorable sectors based on our view

Condition	Favorable Sector
Escalation of Geopolitical tension in the middle east	Energy, Mining (Gold) & Telecom

Condition	Favorable Sector
BI Rate hike to maintain rupiah stability	Financials, Energy & Consumer Discretionary

- We view that some exposure to energy and metals sector is favorable as a hedge to geopolitical risk. Then, we view that financial sector is still favorable despite BI rate hike environment. Especially for banks with lower cost of fund (big banks). We also still like selected stocks in telecom and consumer discretionary sector.

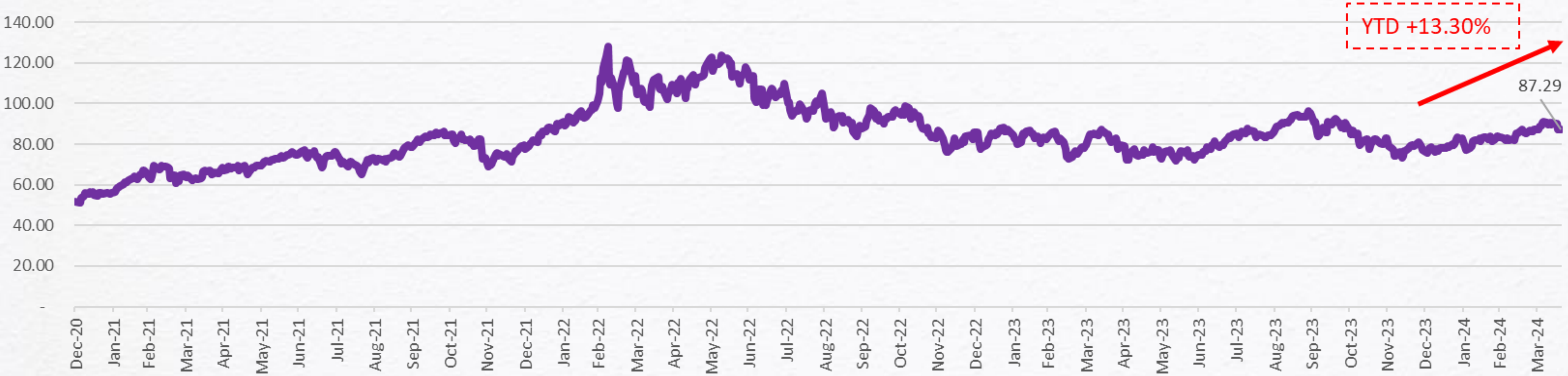
Source : Avrist Asset Management

Sectoral Outlook 3

Market & Product Updates

Energy Sector (Overweight)
Hedge To Geopolitical Tension

Brent Oil
as of 19 April 2024



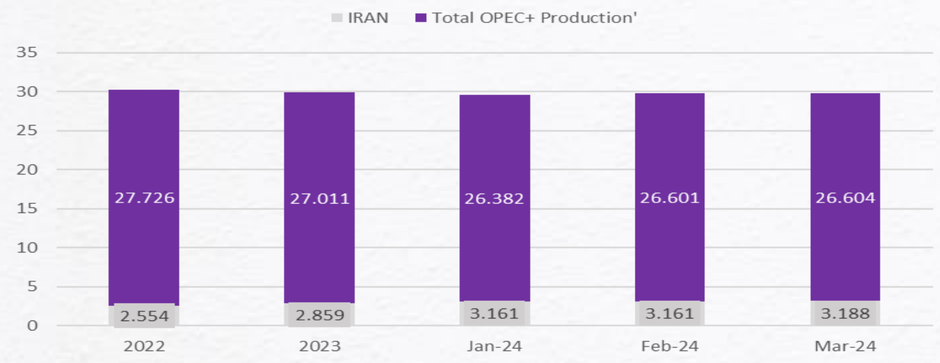
- Brent Oil intraday prices reached $92.10 per barrel following Iran's attack on Israel (12 April 2024), highest in YTD.
- The increase in oil prices to above $90 per barrel was short-lived.
- The possibility of an escalated conflict continues to pose a risk to economic stability.
- No progress towards a ceasefire in the Israel-Hamas conflict, along with persistent skirmishes in the Red Sea region, highlights ongoing geopolitical volatility.
- We view that some exposure to energy sector can be a hedge.

Source: Bloomberg

Energy Sector (Overweight)

Should We be Afraid of Sanction on Iran?

Iran vs OPEC Member Production (mbpd)



- Iran represents 10% of OPEC's total oil production.
- We expect no significant disruptions in oil supply from Iran are anticipated.

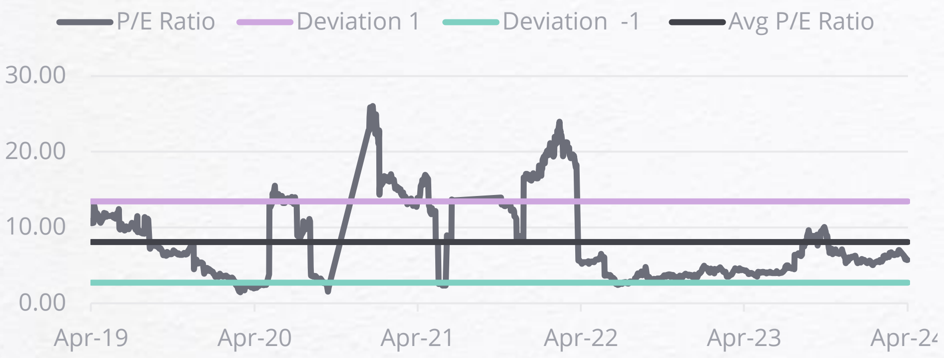
We anticipate disruptions in the global oil supply chains if Iran faces sanctions

- The Red Sea is a crucial passageway for the bulk of global oil and gas shipments originating from the Persian Gulf.
- The Strait of Hormuz, a key vulnerability point, if disrupted, could affect over 20% of global oil and gas trade, leading to a significant supply shock.
- Sanctions involving Iran, which controls the Strait of Hormuz, could pose severe risks to this critical route, amplifying market volatility and potentially causing wider economic disturbances by affecting global supply chains and driving up energy prices.

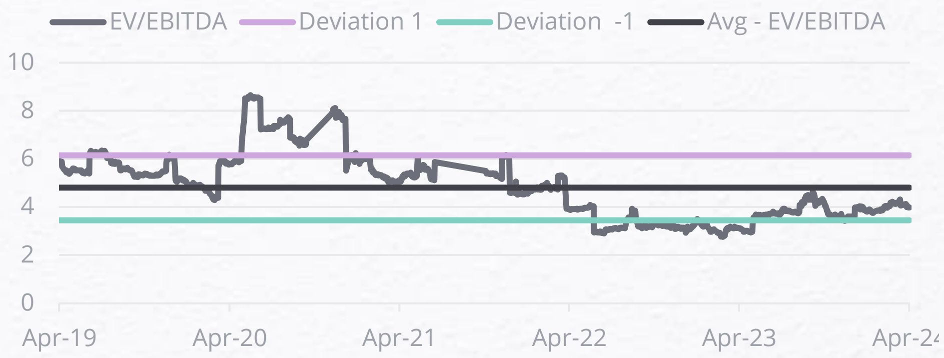
Source: Bloomberg, Avram research

Energy Sector Stock Picks

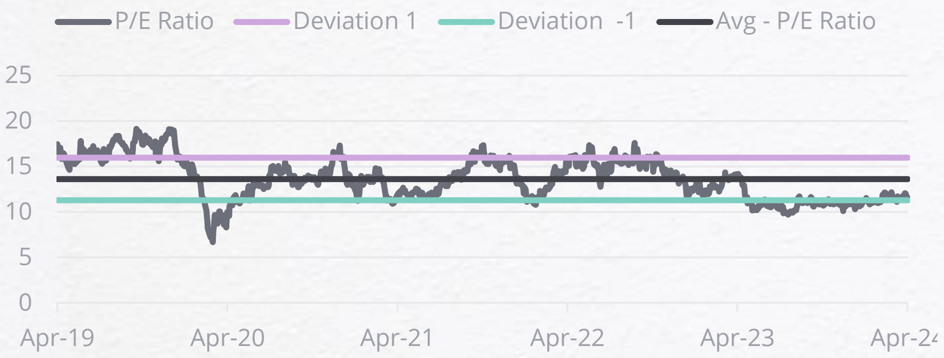
MEDC P/E Ratio



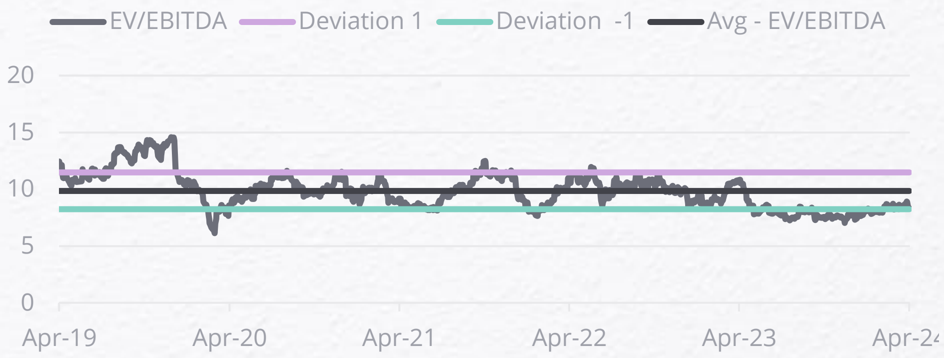
MEDC EV/EBITDA



AKRA P/E Ratio



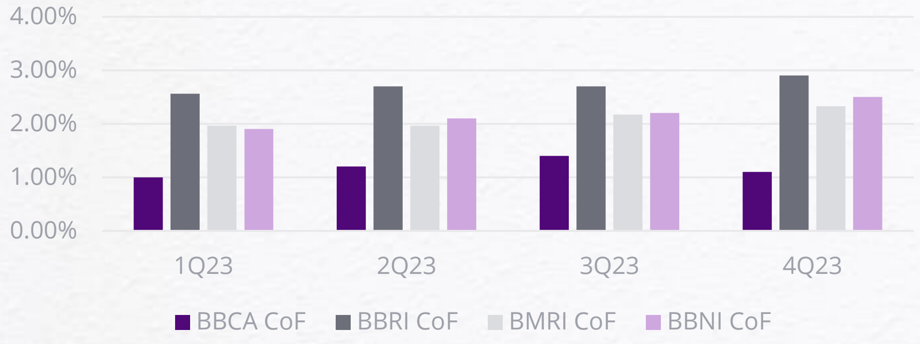
AKRA EV/EBITDA



Banks (Overweight)

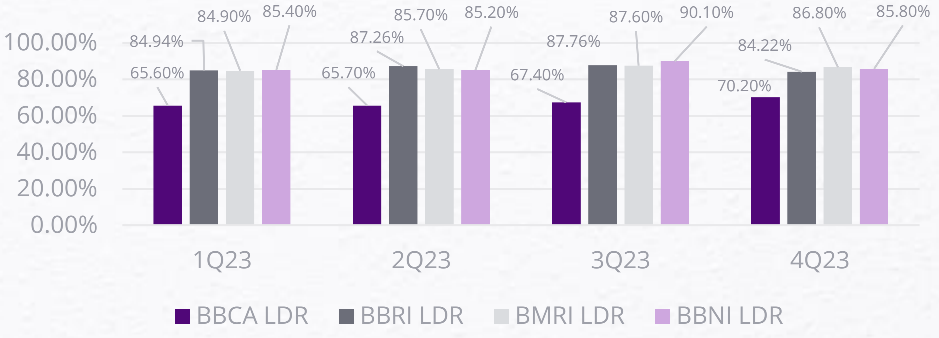
Will Liquidity Improve This Year?

Big Banks Cost of Fund Trend



- Big banks cost of fund have crept upwards in 2023
- Tight liquidity in the system forced the banks to price up their TD, and some of their current account pricing

Big Banks LDR Level



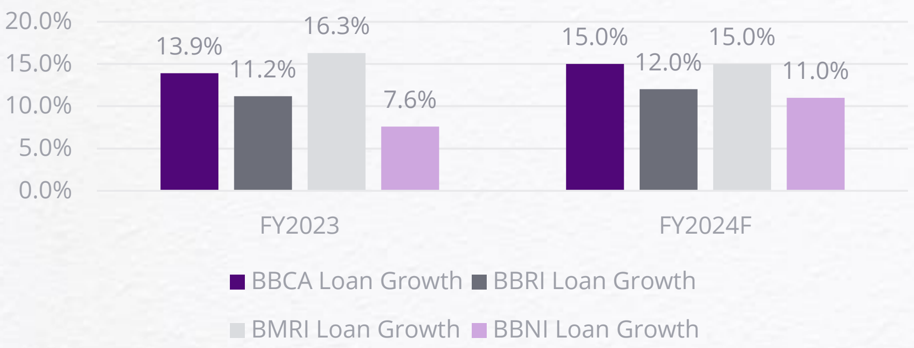
- As loan growth outlook for this year is better, we expect that LDR will stay tight and thus banks need GWM cut by BI to support liquidity
- Other option is for big banks to increase their loan yield, especially for corporate loan segment, which in our view can be done as big banks have pricing power

Source: Companies

Banks (Overweight)

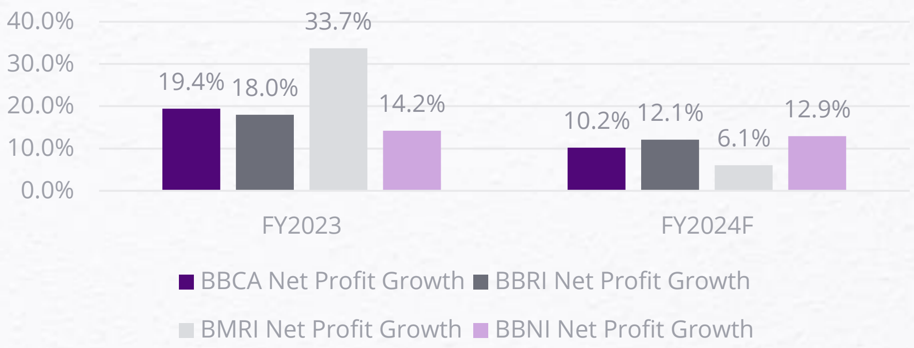
Loan Growth Is Accelerating

Big Banks Cost of Fund Trend



- Big banks have been experiencing higher than expected loan demand so far in 1Q24
- In our view, businesses' need for loans will keep on increasing as covid era savings are wound down
- Coupled with healthy GDP growth outlook, loan growth this year is set to increase

Big Banks LDR Level



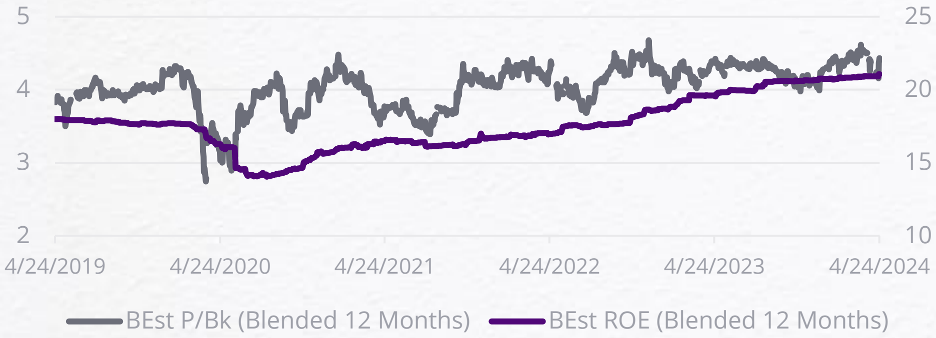
- As provisioning expenses have bottomed in 2023, net profit growth for big banks are expected to be a bit lower.
- PPOP growth for big banks overall is expected to slow down slightly in 2024 to 10%, from 14% in 2023, still decent

Source: Companies, Avram Research

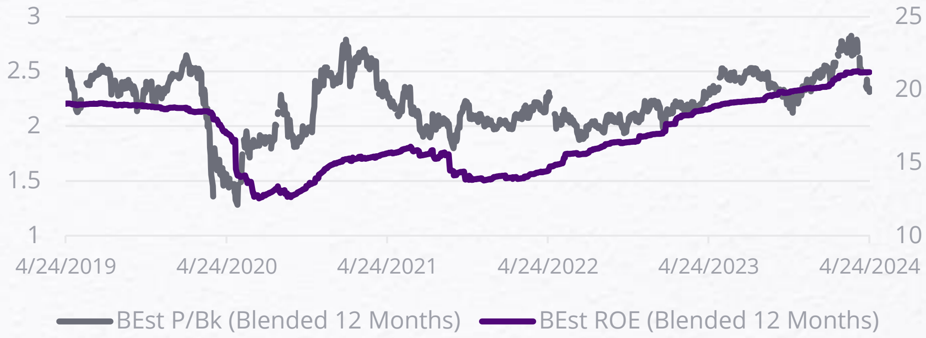
Banks (Overweight)

As a result of the market correction, all the big bank stocks now trade at attractive valuation

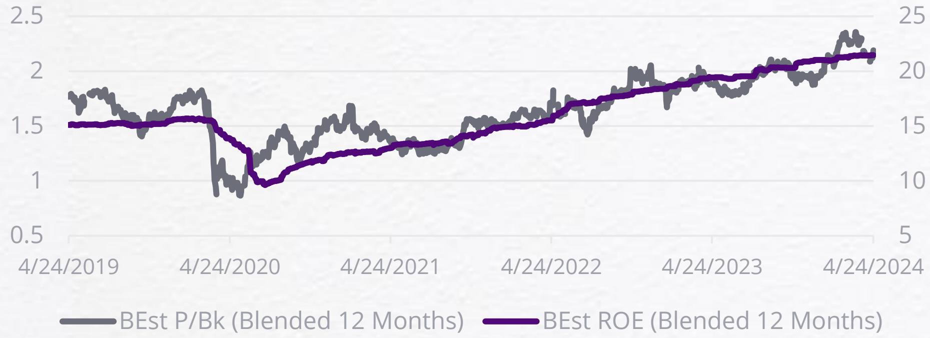
BBCA PBV & ROE



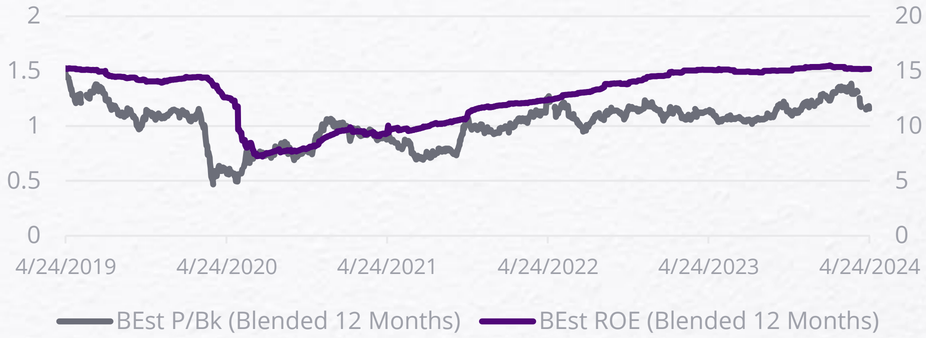
BBRI PBV & ROE



BMRI PBV & ROE

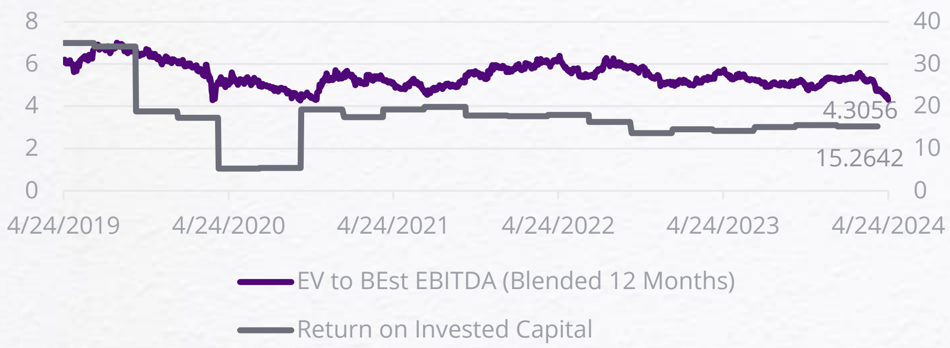


BBNI PBV & ROE

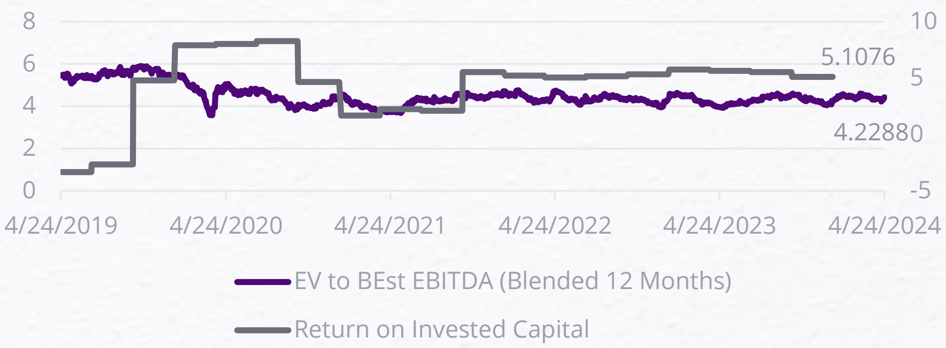


Telco (Overweight)

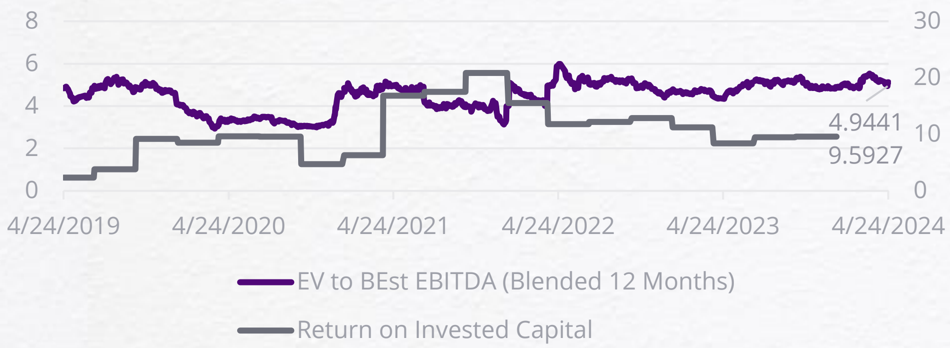
TLKM EV/EBITDA & ROIC



EXCL EV/EBITDA & ROIC



ISAT EV/EBITDA & ROIC

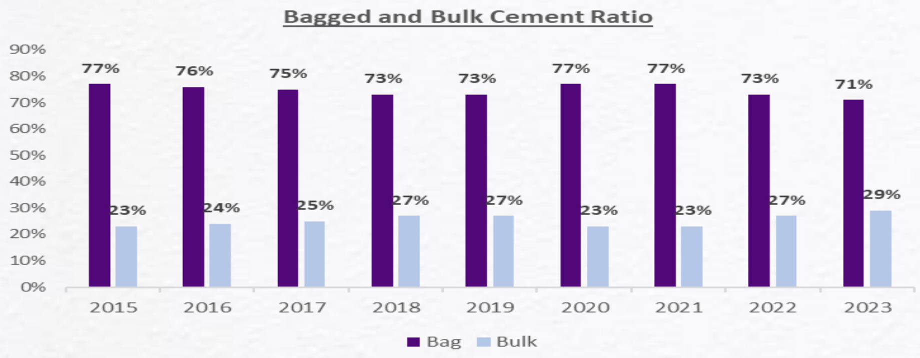


- As a result of the market sell-off, telco stocks are now traded at cheap EV/EBITDA valuation, in our view
- The multi years story of the telco industry is still intact, which is consolidating market which brings healthy competition, higher ARPU, and ultimately higher ROIC
- In our view exposure to telco sectors for medium term is attractive

Cement Sector (Underweight)

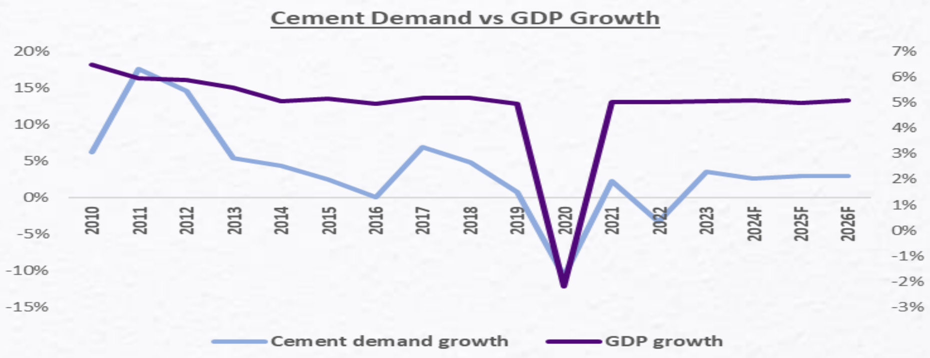
Stable demand outlook, with IKN and infrastructure playing as key catalysts

Bagged and Bulk Cement Ratio



- The bagged cement segment dominates Indonesia's cement sales, driven mainly by demand from the property sector, particularly for self-built houses and renovations.
- Bulk cement demand is fueled by infrastructure projects, such as toll roads and smelters, with the government's push for domestic nickel processing leading to increased smelter construction.
- Despite stagnant volume growth since 2013, exceptions occurred in 2017 with a 7% increase and in 2020 with an 11% decrease due to the pandemic.

Cement Demand Vs GDP Growth



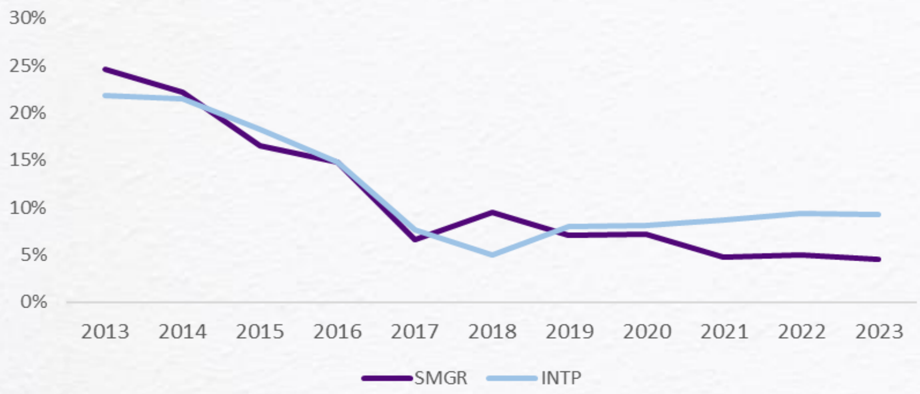
- Real GDP growth, a key indicator for cement demand, has decreased from over 6% pre-2012 to 5% in 2013-23, excluding 2020.
- The new government's aggressive fiscal spending may boost economic growth and demand for bagged cement
- Additional infrastructure development in KIPP project areas could further increase cement demand.

Source: BRID, Avram reserach

Cement Sector (Underweight)

Stable demand outlook, with IKN and infrastructure playing as key catalysts

SMGR/INTP's ROE



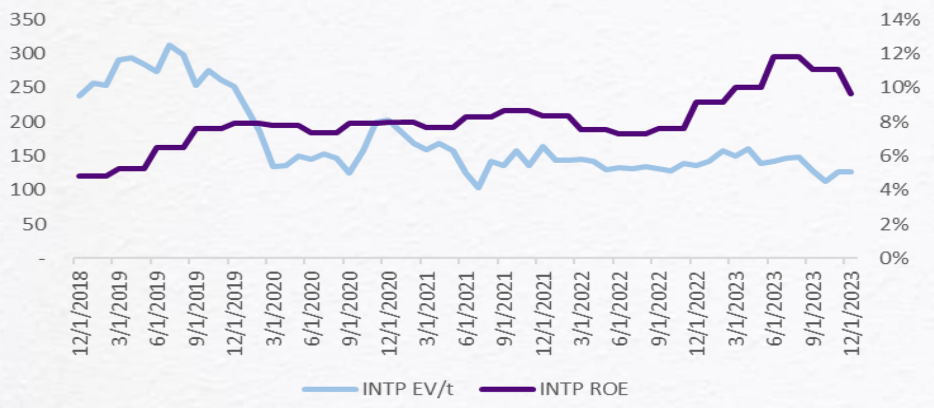
- The two leading cement producers in Indonesia, Semen Indonesia (SMGR) and Indocement (INTP), dominate the market with 47% and 28% of the country's capacity, respectively.
- However, overcapacity and price competition have caused a decline in return on equity (ROE) for both companies. Smaller competitors pricing their products 15-20% lower has forced major players to adjust their pricing strategies.
- Despite seeing a return to volume growth and stabilizing average selling prices (ASP), cement producers may struggle to reach pre-2015 levels of profitability and ROE.

Source: Bloomberg

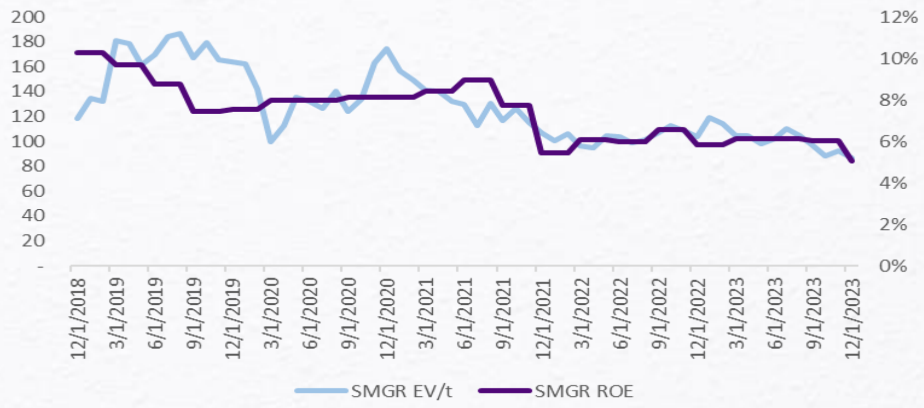
Cement Sector (Underweight)

Stable demand outlook, with IKN and infrastructure playing as key catalysts

INTP EV/t VS ROE



SMGR EV/t VS ROE



- The two cement stocks (INTP & SMGR) are now traded at attractive valuations in terms of EV/ton. However we are still cautious on the sector due to overcapacity and price competition, and prefer to wait for more clear signs of demand recovery and selling price uptrend.

Source: Bloomberg

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Automotive	Neutral	▪ Autoparts sector will be a beneficiary from EV regulation. ▪ Foreign companies are entering Indonesia market with localized production, supporting demand for auto parts.	▪ EV incentives give support to overall 4W and 2W sales ▪ Local component minimum changes from 40% to 60% in the next year ▪ Potential for recover of 2W and 4W sales in 2024F	▪ Crowded competition in the automotive industry
Banks	Overweight	• Still strong loan growth in several segments • Stable cost of fund for big banks • Potential GWM cut	• Potential for acceleration in corporate loan growth • Potential for repricing up of loan yields	• Rising cost of funds for some banks • Rising asset quality risk from mass market segment

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Construction	Underweight	▪ 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	Underweight	• Restriction of growth as a result of the slow recovery in cement sales • Cement prices typically remain flat due to a surplus of supply compared to demand.	• Potential development of new capital city • We expect the competition to stay intense and that obstacles will arise for ASP growth of bagged cement until at least the first half of the year	• Cement supply surplus tend to persist in the long term • The rainy season that is occurring this year might make domestic cement consumption even more difficult.

Summary

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Sector	Rating	Thesis	Catalysts	Risks
Coal	Neutral	• China economic growth potential is estimated to be lower than previous decade, limiting coal demand growth	• Global supply and demand should be relatively well balanced in 2024 • Production from major exporting countries have slowed down	• China may be approaching peak coal consumption • ESG risks
Consumer Staples	Overweight	• Stronger revenue growth, supported by elections campaign	• Competitive landscape improvement from a several segment of the sectors (Dairy) • Free lunch program and other more pro growth initiatives	• El Nino might increase several soft commodities prices • High inflation and currency depreciation

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Energy Utilities (PGAS)	Neutral	• Potential improvement in distribution margin • Geopolitical risks and elevated oil price might give support to upstream segment	• Oil price rebound • Oil production cut extend • Higher than expected distribution volume due to strong economic growth	• Further pressure on distribution margin from government • Gas supply risk
Heavy Equipment (UNTR)	Overweight	• Maintaining stable positive growth overall • Business expansion especially to nickel and renewable energy	• Potential rebound in coal price • Coal and gold price still in high level	• Lower coal price from weak China economy • Lower overburden volume
Healthcare	Overweight	• Long term structural improvement in Indonesia's healthcare awareness and penetration	• Hospitals will be benefited by BPJS INA CBG tariff adjustment	• If BPJS Kesehatan falls back to deficit

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Metal	Overweight	• 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	• Peak fed rates • Bottoming China economic data • Potential rebound in copper and nickel price	• Recession in US, Europe • Weaker than expected China economic rebound • Oversupply in class 2 nickel • Slowing growth in China EV sales
Oil & Gas	Overweight	• Oil price tend to increase due to Middle East tension	• Peaking Fed rate • Rebound in China economic data • India continue to increase the demand • Shrinking US oil stockpiles	• Recession in US, Europe • Weaker than expected China economic rebound

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Property	Neutral	• Property presales still growing single digit in 2024. • VAT incentive for property in 2024.	• Still low mortgage rate • Purchasing power improvement and structural end user demand	• Pressure from higher bond yields • Oversupply in several categories such as apartments
Retail	Overweight	• Strong increases in customer traffic for a number of businesses in February, most likely as a result of the extra cash handouts that were given to 18.8 million households during that time. • Consistent record of strong and stable earnings growth.	• Expecting lower interest rates and government support, consumers with lower incomes will probably increase their spending • In the near future, THR and Lebaran period will lead to higher consumer spending.	• Tough prediction for mass market consumption this year • Competitive peers

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Sector	Rating	Thesis	Catalysts	Risks
Telco	Overweight	• The big 3 mobile network operators have continued to show ARPU improvement • FMC as a new source of growth	• Continued healthy pricing by operators • Improvement of internet penetration and usage	• Potential of Telkomsel Lite to trigger more aggressive pricing behavior • If tower rent expenses increase
Tech	Underweight	• 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

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