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Asset Management

STAYING THE COURSE

Avrist Asset Management Team

MARKET AND PRODUCT UPDATES
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Equity Market Outlook

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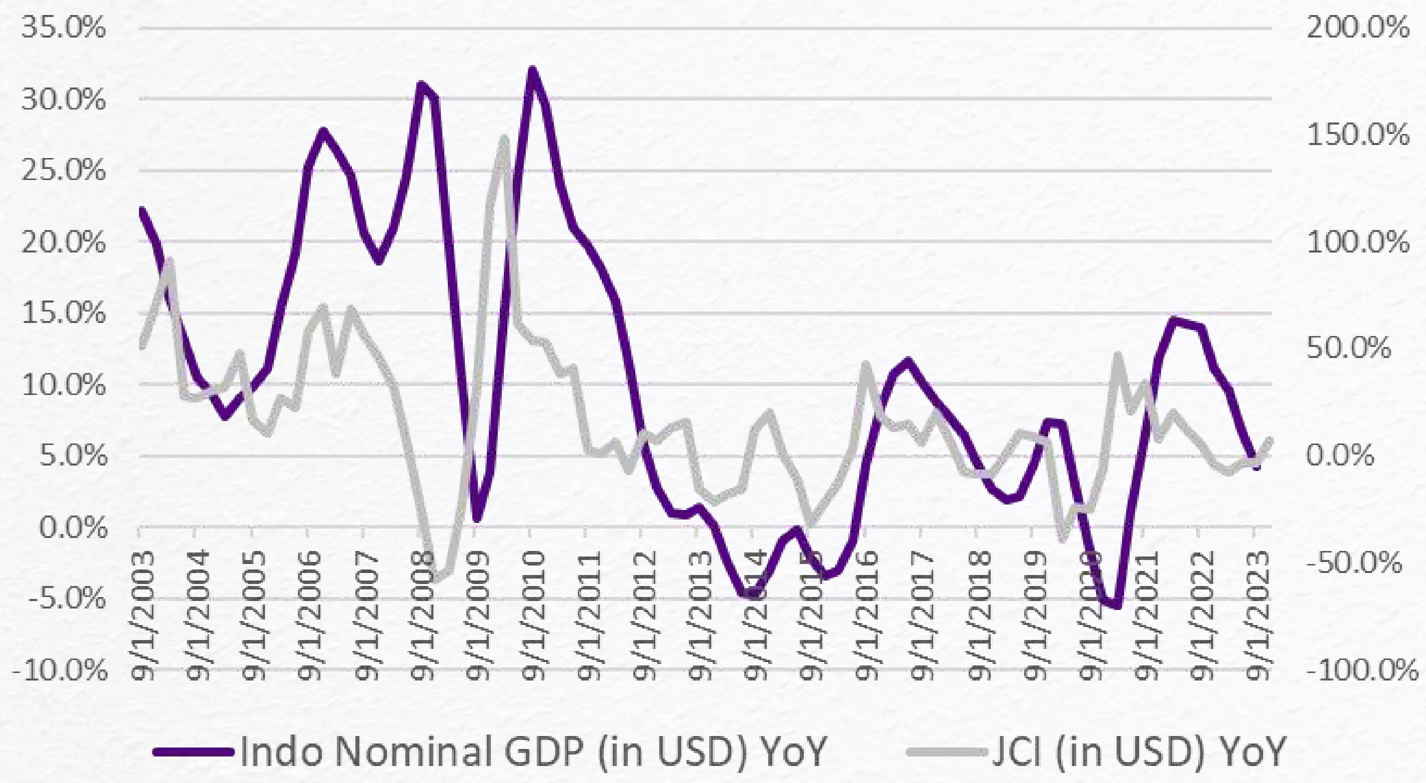
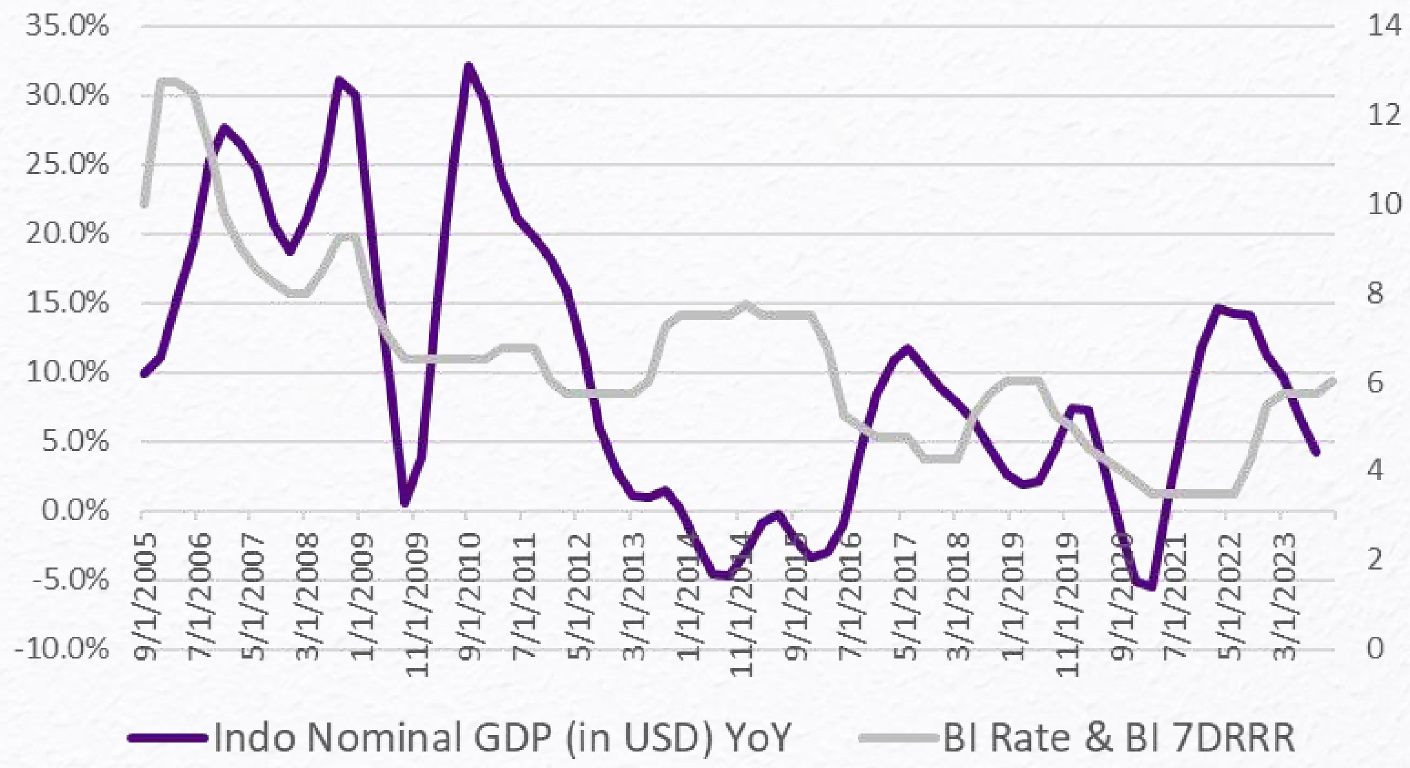
Indonesia’s Economic Cycle Currently Is Comparable To 2015-16 and 2018-19, In Our View

Indo Nominal GDP Growth (USD) vs JCI (USD) YoY



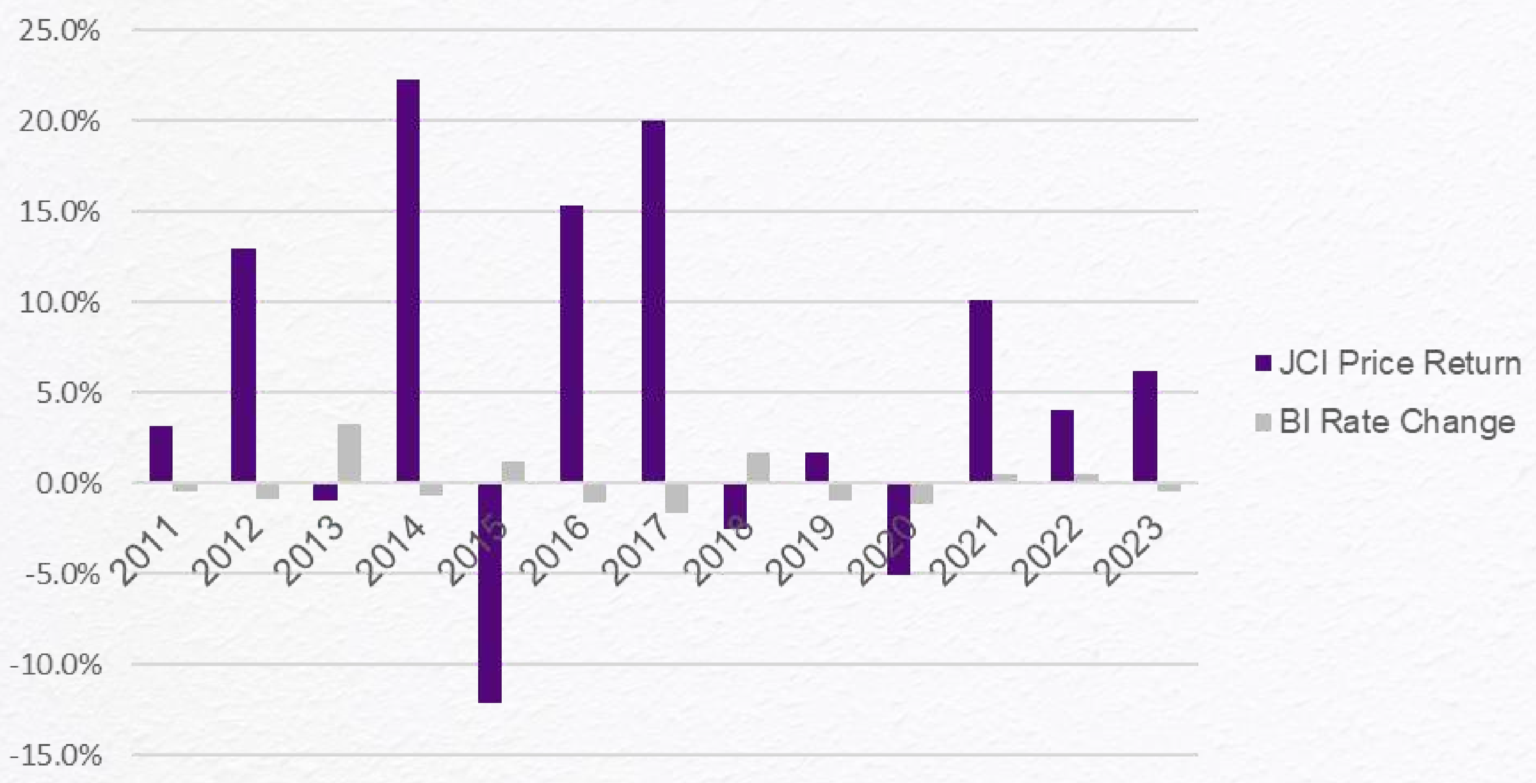
Indo Nominal GDP Growth (in USD) vs BI Rate & BI 7DRRR



- Indonesia’s economic cycle currently is most comparable to the 2015-16 and 2018-19 period, in our view, due to potential of monetary policy rate cuts
- Our view is that as long as IDR remains relatively stable and Fed conducts rate cuts in 2H 2024, BI might follow
- JCI have been following (or sometimes lead) Indonesia nominal GDP directionally over the past 20 years
- We view that Indonesia’s nominal GDP might inch up from 2023 level, given monetary policy rate cuts and stable IDR

Source: Bloomberg

Potential For JCI To Post Return Between The Returns in 2016 and 2019 Periods

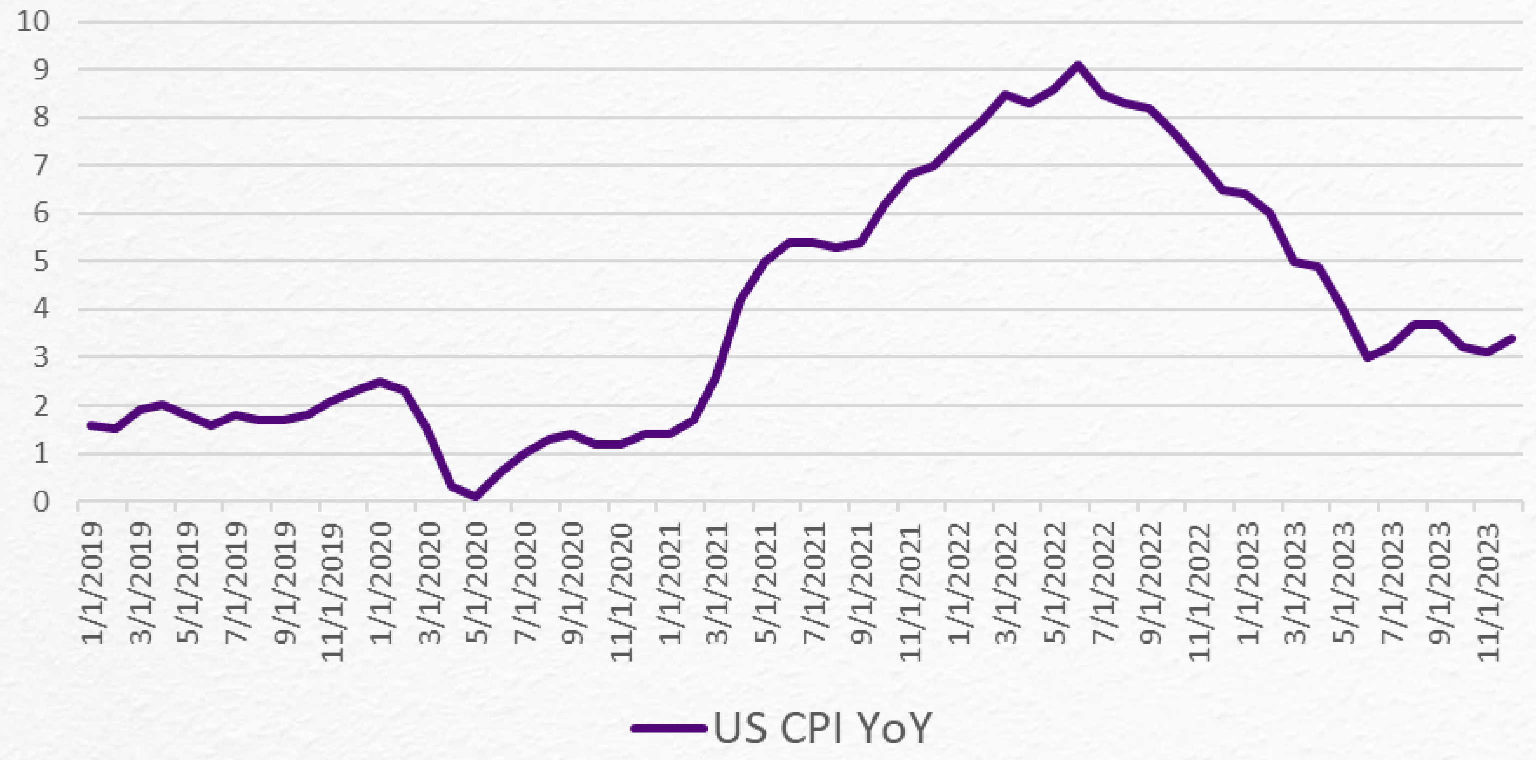


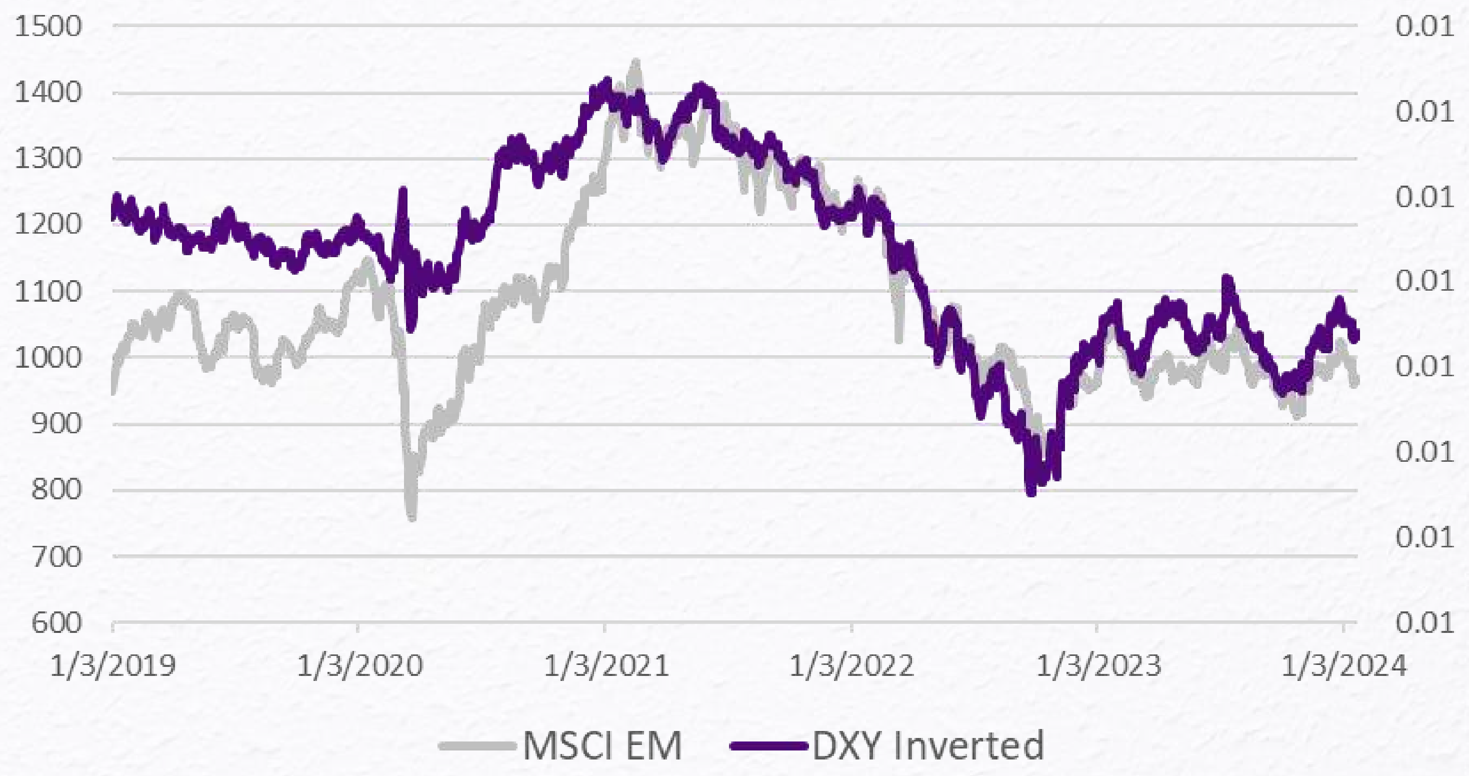
	2016	2019	2024F
BI Rate Cut (%)	0.75	1	0.75
EPS Growth	4.90%	-6.30%	10.00%
Starting P/E	15	14.5	13.8
JCI Price Return	15.30%	1.70%	6.00%

- JCI has been traded at attractive valuation in the past year, and our base case JCI target of 7,700 is conservative in our view as it assumes no re-rating
- As the rate cuts will be on the back half of the year, we think the re-rating, if it happens, will also happen towards second half

Source : Bloomberg, Avram Research

Global Macro Conditions Are Still Supportive



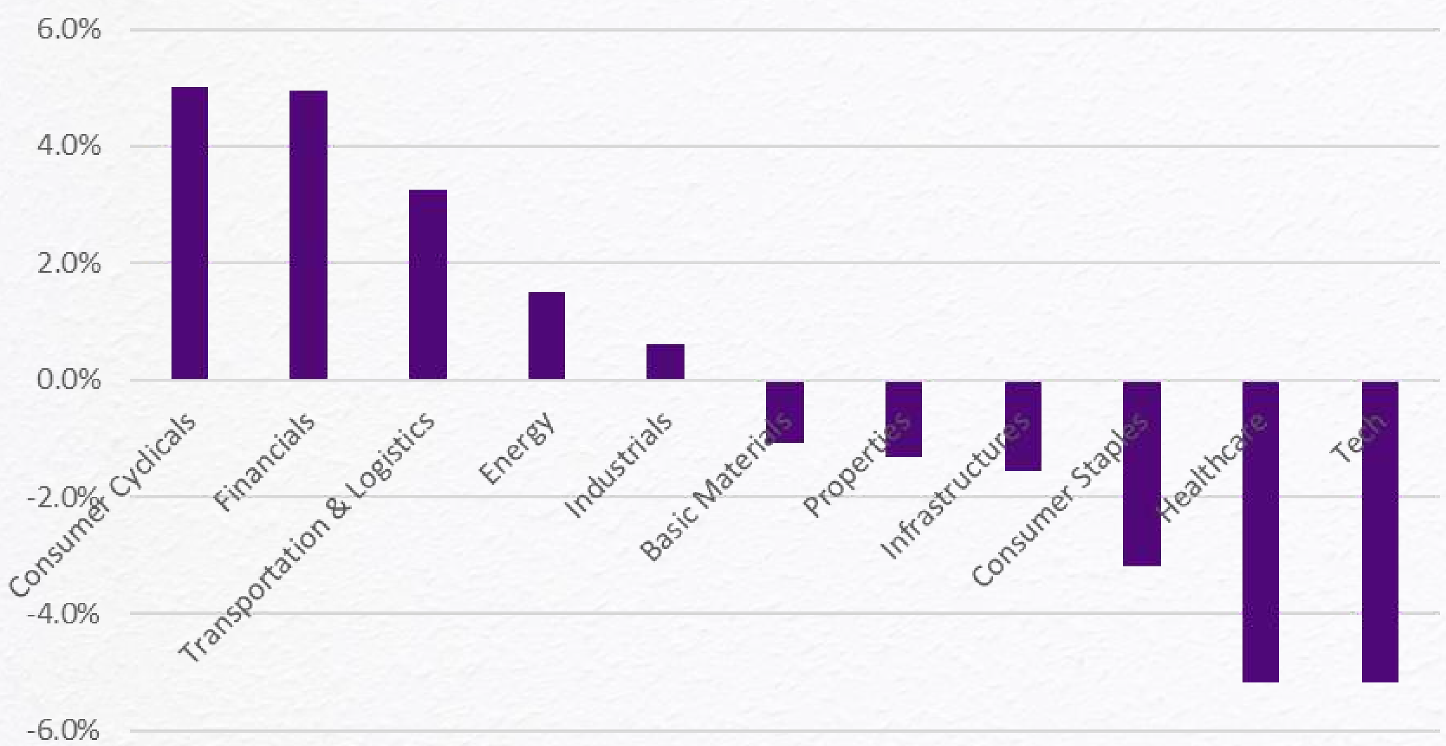


- We view that US inflation is still on track to decelerate
- Easing labor market also supports this view
- With inflation relatively easing, we view that The Fed is still on track to cut this year
- If Fed shifts to easing, we view that US Dollar will trend downwards or at least remain stable, and this will support sentiment towards EM equities including Indonesia

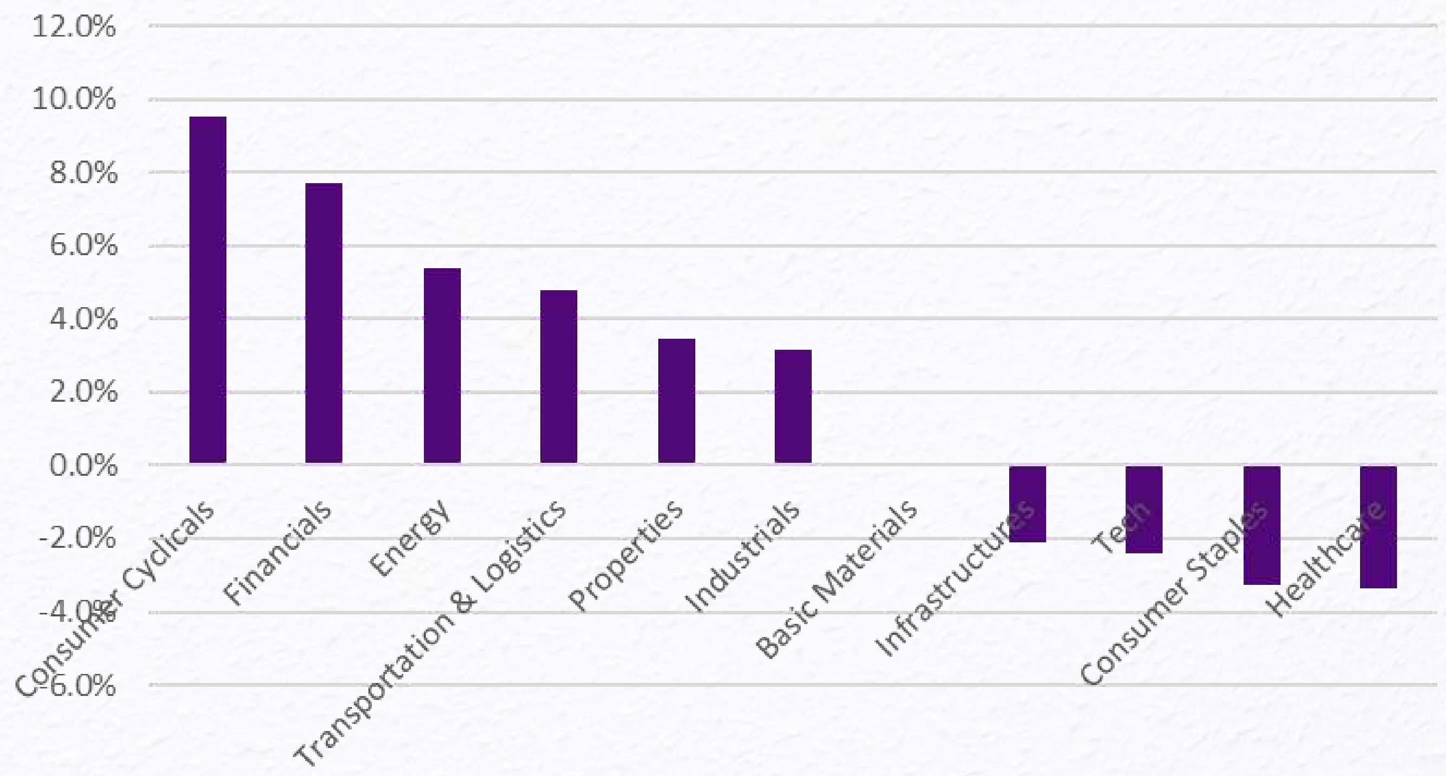
Source: Bloomberg

JCI Ytd Sectoral Performance and Performance Since Latest FOMC

Ytd Sectoral Performance (22 Jan 24)



Performance Since Latest FOMC (13Dec – 22Jan)

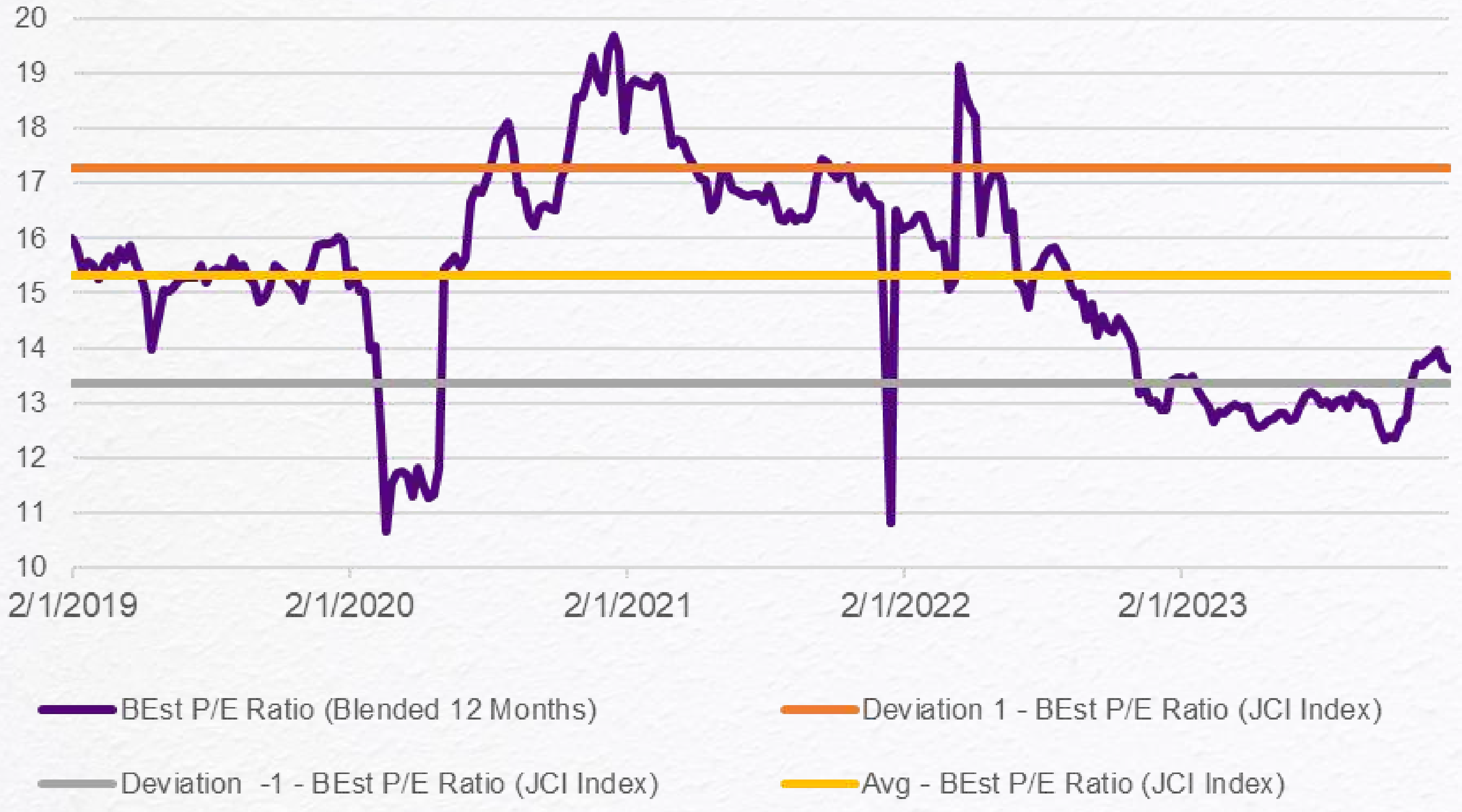


- In JCI, sectors that have outperformed since The Fed's more dovish statements in the beginning of Dec are, in our view, somewhat related to interest rate sensitives such as financials and properties, and also consumer cyclicals which might benefit from more stable rupiah

Source: Bloomberg

JCI Valuation

JCI P/E Ratio



JCI PBV Ratio

- JCI is still traded at attractive valuation in terms of P/E and PBV compared to its 5 year historical
- Catalysts for JCI to re-rate in our view will be more clarity on Fed’s rate cut timeline, and post election clarity of next Government’s economic policies

Source: Bloomberg

JCI Attractiveness Compared To Other Markets

JCI Valuation Compared to Peers

(as of 22 Jan 2024, Blended 12M Forward)	P/E	PBV	ROE 2024F	EPS Growth 2024F
Hang Seng	7.03	0.78	10.90%	10.90%
Ho Chi Minh Stk (Vn30)	8.51	1.35	15.70%	32.00%
Shanghai Comp	9.2	1.02	11.00%	12.90%
KOSPI	9.82	0.81	8.20%	7.70%
FTSE Straits	10.12	1.01	10.10%	-0.60%
PSEI - Philippine	11.29	1.35	12.10%	-2.70%
FTSE Malay	13.28	1.26	9.50%	9.10%
JCI	13.65	1.87	13.30%	10.00%
SE Thai	13.74	1.28	9.30%	2.20%
Nifty 50	19.9	2.9	14.70%	22.50%
S&P 500	20	3.97	18.50%	9.00%
Nikkei 225	20.7	1.96	9.30%	5.20%

JCI Cumulative Fund Flows Since 2019

- JCI is currently not the cheapest equity index amongst some of its Asian peers, with Thailand, India, and Japan being the only more expensive markets amongst selected peers.
- However, with cumulative flows since 2019 still not back to 2022 and 2023 highs, and with ROE and EPS growth that are higher than peers' median, we view JCI as still attractive

Source: Bloomberg

Sectoral Outlook

Banks
Good way to start 2024 (Overweight)

LDR	3M23	6M23	9M23	11M23	12M23
BBCA	65.60%	65.70%	67.40%	70.70%	70.20%
BMRI	84.90%	85.70%	87.60%	87.70%	N/A
BBRI	85.26%	87.83%	88.34%	89.60%	N/A
BBNI	85.43%	85.21%	90.05%	91.00%	85.81%

- In 2023, there was an increase in the LDR of most banks, leading to a tightening of liquidity in the market. As we look towards 2024, we expect a continued expansion in loan growth, but we also expect liquidity improvement from potential higher Government spending and reduction in GWM which might result in decrease of the LDR.
- We expect Bank Indonesia (BI) to cut interest rates in the 3Q23, accompanied by a lower bank reserve requirement (GWM), that lead to the liquidity loosening in the market. If all the scenarios occur, there is a high probability that banks might be able to reduce their CoF.

Source: Avram research, bloomberg

Banks
BBNI FY2023 Results:

- **Net Interest Income (NII):**
  - 4Q23 NII: IDR10.6tn
  - FY23 NII: IDR42.9tn (unchanged yoy)
- **Net Interest Margin (NIM):**
  - 4Q23 NIM: 4.4% (-30bps qoq / -50bps yoy)
  - Influenced by higher funding costs due to tight liquidity.
- **Central Bank's Role:**
  - Possibility of the central bank reducing reserve requirements.
  - Suggested RR reduction in 1H23 given the M2 growth of ~3.5% yoy in FY23.
- **Pre-Provision Operating Profit (PPOP):**
  - 4Q23 PPOP: IDR8.7tn
  - FY23 PPOP: IDR35.0tn (+2% yoy)
- **Cost of Credit (CoC):**
  - 4Q23 CoC: 1.5% (+20bps q-q; -10bps yoy)
  - In-lined within the guidance of 1.3-1.5% for FY23.
- **Credit Quality:**
  - 3Q22 NPL: 2.3% (-20bps qoq; -70bps yoy)
  - Loans-at-Risk (LAR) Ratio: 12.8% (-150bps qoq; -310bps yoy)
  - LAR Coverage: 52.7% (+160bps qoq; +390bps yoy)
- **Profit and Growth:**
  - 4Q23 Profit: IDR5.2tn
  - FY23 Profit: IDR20.9tn (+14% yoy)
  - Aligned with consensus FY23 earnings projection.
- **Loan and Deposit Growth:**
  - Loan Growth: 7.6% yoy, driven by corporates (+13% yoy) and consumers (+13% yoy).
  - Deposit Increase: 5% yoy, with significant contribution from current accounts (+10% yoy).
- **CASA Ratio:**
  - Elevated CASA Ratio: >70% due to ongoing digital transformation.
- **Liquidity Position:**
  - Loans-to-Deposits Ratio (LDR): 86% in 4Q23 (+170bps yoy).
  - Adequate liquidity to support anticipated loan demand in 2H24.

Source: Company, Avram research

Banks
BBCA FY2023 Results:

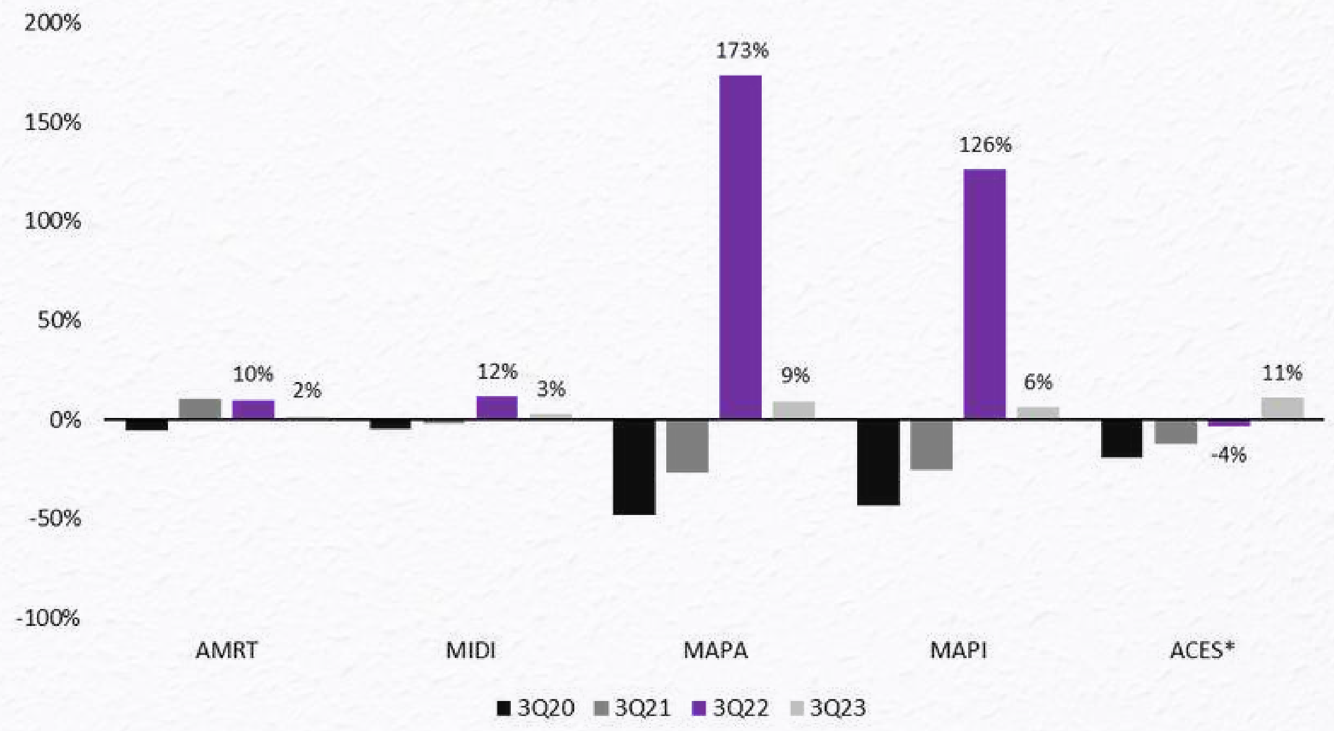
- **Profit Growth:**
  - In 2023, Net profit increased by 19.4% yoy
  - Despite rising cost of funds (CoF) and opex, BBCA's bottom-line aligned with market projections, reaching 98%-99% of full-year expectations.
- **Revenue Drivers:**
  - Yield improved by 91bps, driven by a robust 13.9% yoy loan growth.
  - Net Interest Margin (NIM) expanded by 20bps to 5.5%.
  - Opex increased by 15.4% yoy, attributed to SME segment development, network expansion, and technology-related expenses.
- **Loan Growth and Segments:**
  - 13.9% yoy loan growth with the SME segment leading at 16%, followed by corporate (+15%) and consumer (+14.8%).
  - Strong demand from mining, downstream industries, logistics, and retailers supported growth.
  - Vehicle loan growth surged by 20.8% yoy in December 2023.
- **NIM and Cost Management:**
  - NIM improved by 20bpss despite rising CoF and no significant loan repricing.
  - CoF increased by 30bpss yoy to 1.1% in 2023.
  - Efficient liquidity with the LDR rising to 70.2% in December 2023.
- **Asset Quality and Coverage:**
  - LaR ratio decreased to 6.9% in December 2023, reflecting improving asset quality.
  - NPL ratio stood at 1.9%, manageable and slightly higher than December 2022.
  - Robust provision coverage led to a 40bps drop in Cost of Credit (CoC) to 30bps.
  - High NPL coverage at 234% and LaR coverage at 69.7%.

Source: Company, Avram research

Retail Sector, Unveiling Opportunities: Navigating the Dynamic Landscape of the Retail Sector (Overweight)

Indonesia's retail sales following CCI Index

Indonesia’s retailers 3Q20-3Q23 SSSG (in%)



**ACES Sept only*

- In contrast to +2.1% yoy in November 2023, Indonesia's retail sales for December 23 was only +0.1% yoy. This aligns with the latest CCI data, which increased slightly to 123.8 in December 23. Fuel and food and beverage expenditures were estimated to be higher in households than in others.
- While middle-class and upper-class consumers' spending is expected to stay stable, lower-income consumers are expected to increase as they benefit from government support and potential interest rate cuts.

Retail Sector, Unveiling Opportunities: Navigating the Dynamic Landscape of the Retail Sector (Overweight)

Company Code	Revenue Growth (%) YoY		Net Income Margin (%)		P/E	ROE
	FY 22	FY 23 Est	FY 22	FY 23 Est		
ACES	3.4	11.9	9.9	9.6	17.7	14.1
AMRT	14.2	13.0	2.9	3.1	33.3	29.6
MIDI	15.0	13.4	2.5	2.9	26.0	17.2
MAPI	46.2	23.0	6.9	6.5	15.0	22.2
MAPA	62.2	31.2	12.1	11.3	19.8	30.5
ERAA	13.8	17.5	2.0	1.4	7.9	12.4
LPPF	15.5	1.1	21.4	12.8	4.9	443.9
RALS	15.6	-11.0	9.5	12.0	9.7	8.3

- MAPA's growth is slightly greater than that of MAPI, the consensus estimate is 11.3% NPM, compared to 6.5% for its parent MAPI, and MAPA's ROE is 30.5%, whereas MAPI's is slightly lower at 25%. According to trends in athleisure and sports enthusiasm that continue to support growth and produce high returns on equity (ROE).

- We are seeing the possibility of robust NPM and ROE, similar to AMRT in 2019–2021, as well as the right issue that could lead to an inflection for MIDI post–deleveraging, with Lawson possibly emerging as a further growth driver. With a focus on mid-upper consumers and residential areas, MIDI provides stable sales growth compared to AMRT, while slightly higher sales growth is achieved at a relatively lower valuation.
- ACES's FY23 net sales increased by 12% yoy, with only December 2023 net sales has reached IDR813 bn. We think this is related to December's typically high volume of traffic. The management reported that strong SSSG with top 5 categories of miscellaneous, appliances, electrical, and home living was supported by the 4th campaign #BisaKejadian and higher foot traffic in December 2023.

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Auto-motive	Over-weight	• Autoparts will be beneficiary from EV regulation. • Foreign company entering Indonesia market with localize production.	• 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	• Still strong loan growth in several segments	• Loan growth still high single digit • Continuing improvement in asset quality	• Rising cost of funds for some banks • Cybersecurity risks • Rising asset quality risk from mass market segment

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 might positively impact cement players' efficiency • When cement demand from property increase	• 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	• China economic growth below expectations	• Bottoming China economic data • Higher natural gas price in winter might increase coal demand	• Coal royalty in progressive fee • China's economic data still relatively weak
Con-sumer Staples	Over-weight	• Higher margin due to higher ASP and lower soft commodities prices • Stronger revenue growth, supported by elections campaign	• Election campaign-related spending starting in 4Q23 • Lower soft commodities prices compared to 2022	• Wheat prices have started to rebound • El Nino might increase several soft commodities

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Energy Utilities (PGAS)	Neutral	• OPEC+ cut production • Upstream segment might give support	• 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 Equip-ment (UNTR)	Over-weight	• Recording a positive growth up to 3Q23. • 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 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	• The market may turn to more defensive sectors such as healthcare if DM recession happens	• Hospitals will be benefited by BPJS INA CBG tariff adjustment	• 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	• 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

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Oil & Gas	Over-weight	• Oil price tend to increase due to Middle East tension	• 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	• Property presales above the guideline in 2023. • VAT incentive for property in 2024.	• Company expansion after Covid-19 • Decrease of mortgage rate • Purchasing power improvement	• Political year brings wait and see mode • Pressure from higher bond yields

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Retail	Over-weight	• The enormous retail expansion of certain companies • The structural long-term growth stories is still in place	• Change in spending post-Covid, shifting from health towards entertainments • Spending by middle-class to upper-class consumers has remained steady • Expecting lower interest rates and government support, consumers with lower incomes will probably increase their spending	• Tough prediction for mass market consumption this year • Competitive peers
Telco & Tower	Over-weight	• The big 3 mobile network operators have continued to increase prices (ARPU) • FMC as a good prospect for telco business	• Continued healthy pricing by operators • Improvement of internet penetration and usage	• 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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