

NAVIGATING SHIFTING TIDES

Investment Outlook 2024

Avrist Asset Management Team

INVESTMENT UPDATES
JANUARY 2024



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Fixed Income Outlook

From Hiking to Easing

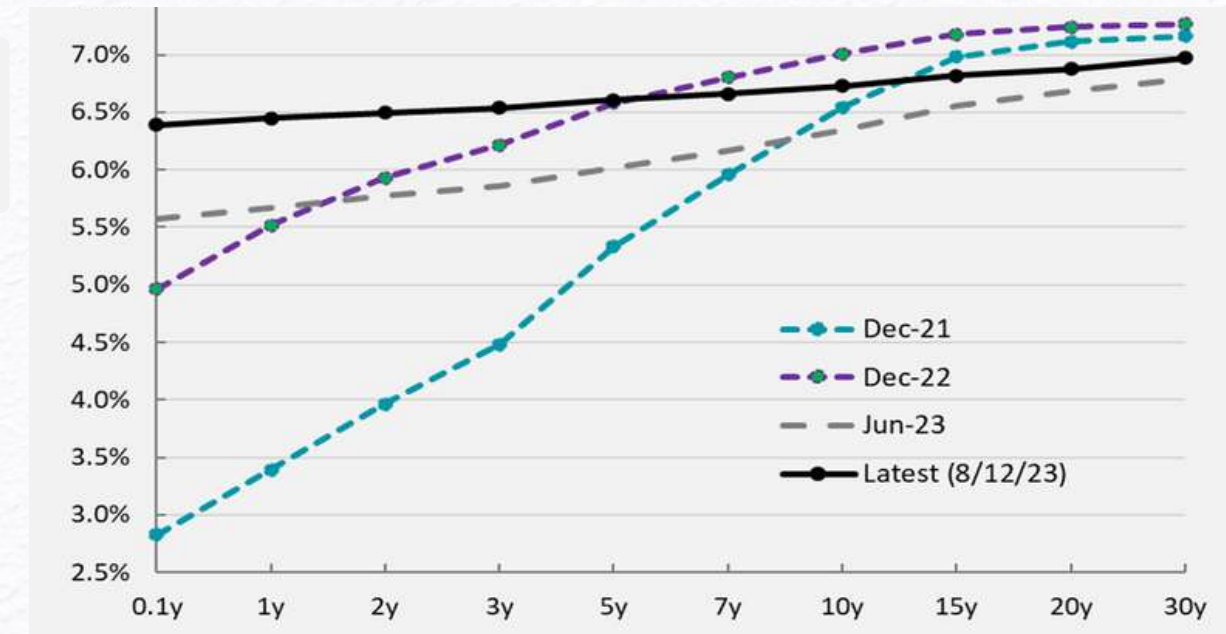


2023: Good, but not great

Maintaining resiliency despite Fed hikes



Flattening yield curve



High single digit return

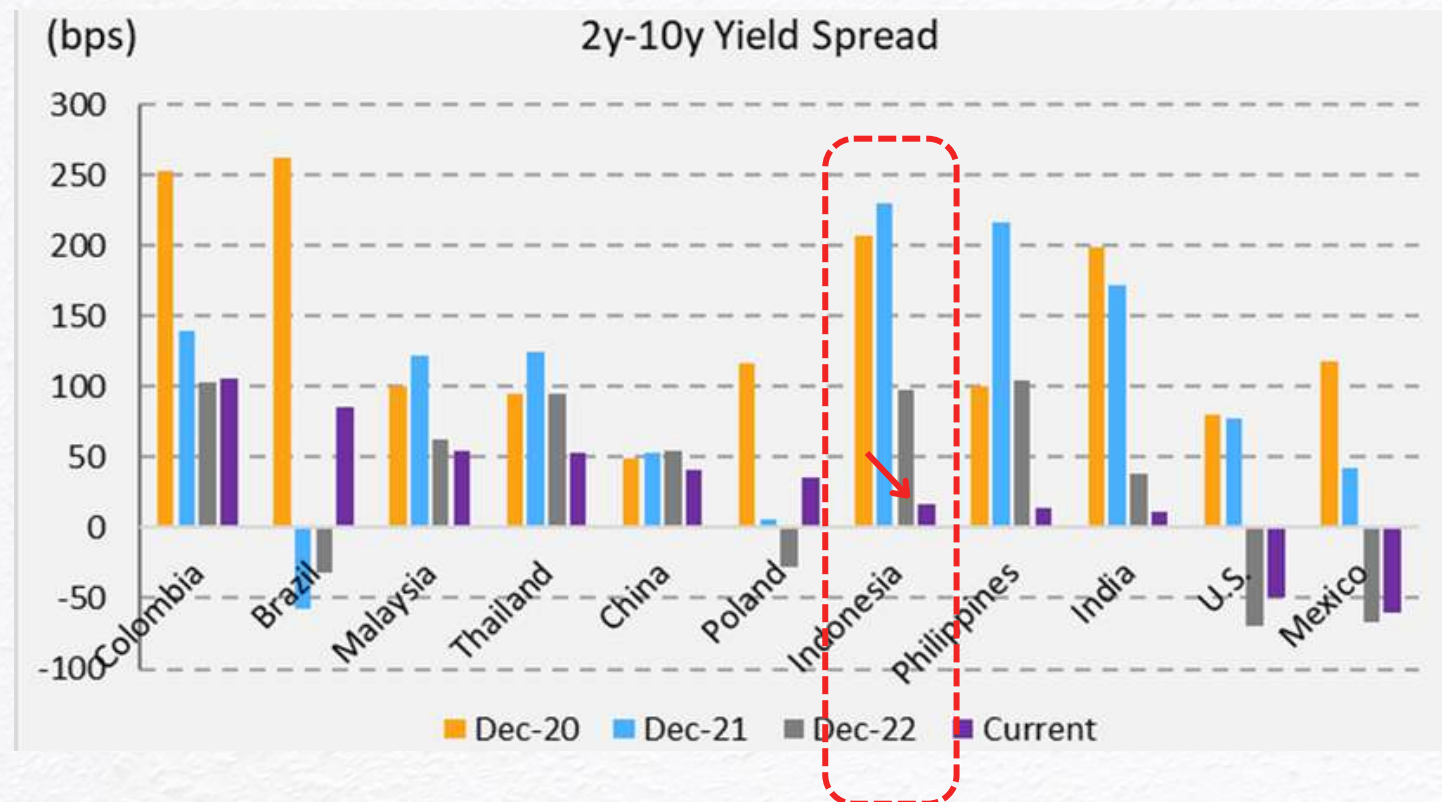
Year	Return
2010	20.0%
2011	21.7%
2012	12.4%
2013	-12.2%
2014	12.7%
2015	3.5%
2016	13.9%
2017	16.9%
2018	-1.6%
2019	13.9%
2020	14.8%
2021	5.5%
2022	3.4%
2023*	8.2%

- **Return:** Single digit, contributed by coupon accumulation
- **Yield volatility:** Well-maintained due to lesser foreign ownership
- **Curve movement:** Flattening long end, reflecting BI policy stance

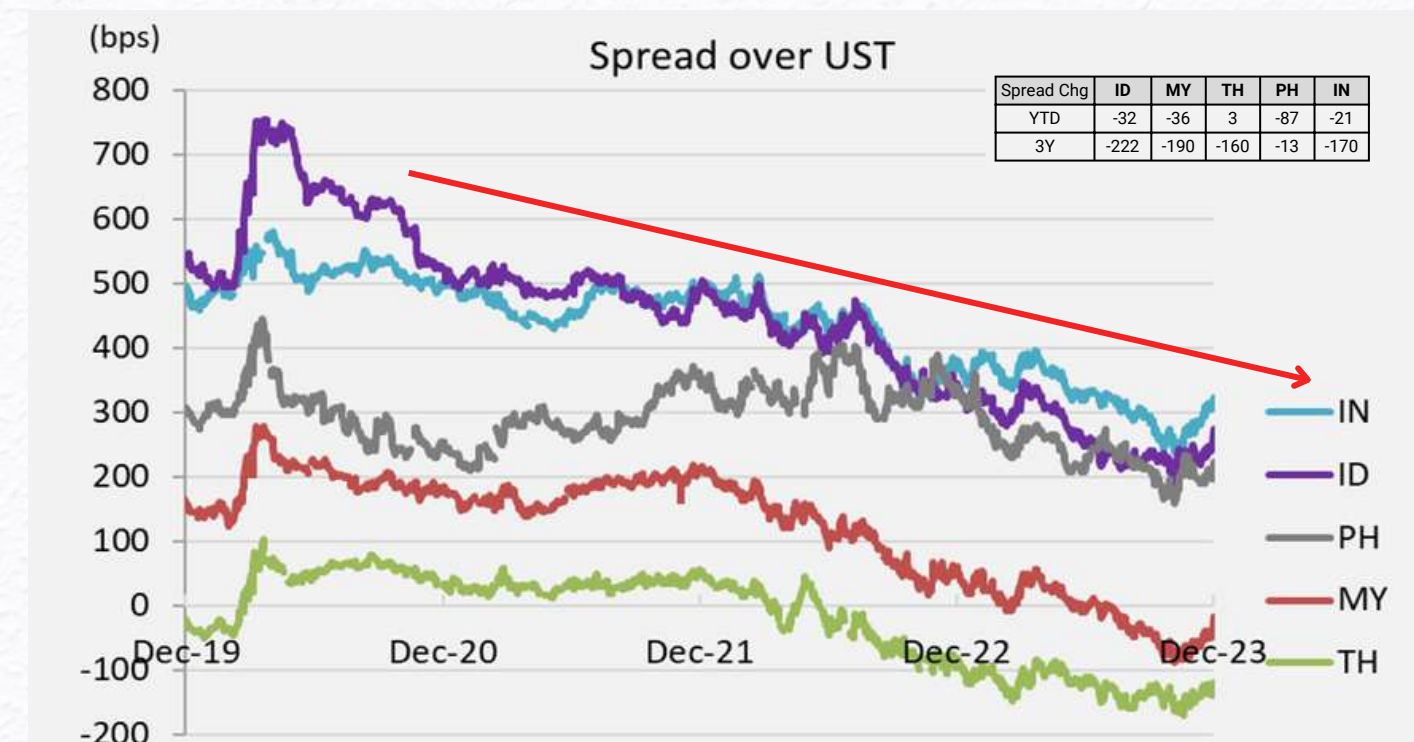
Note: gross return based on Indobex-G total return index *YTD2023 as of 20 Dec 2023

What are the trend in 2023

Flattening curve reflecting CB restrictive policy



Spread compression every where



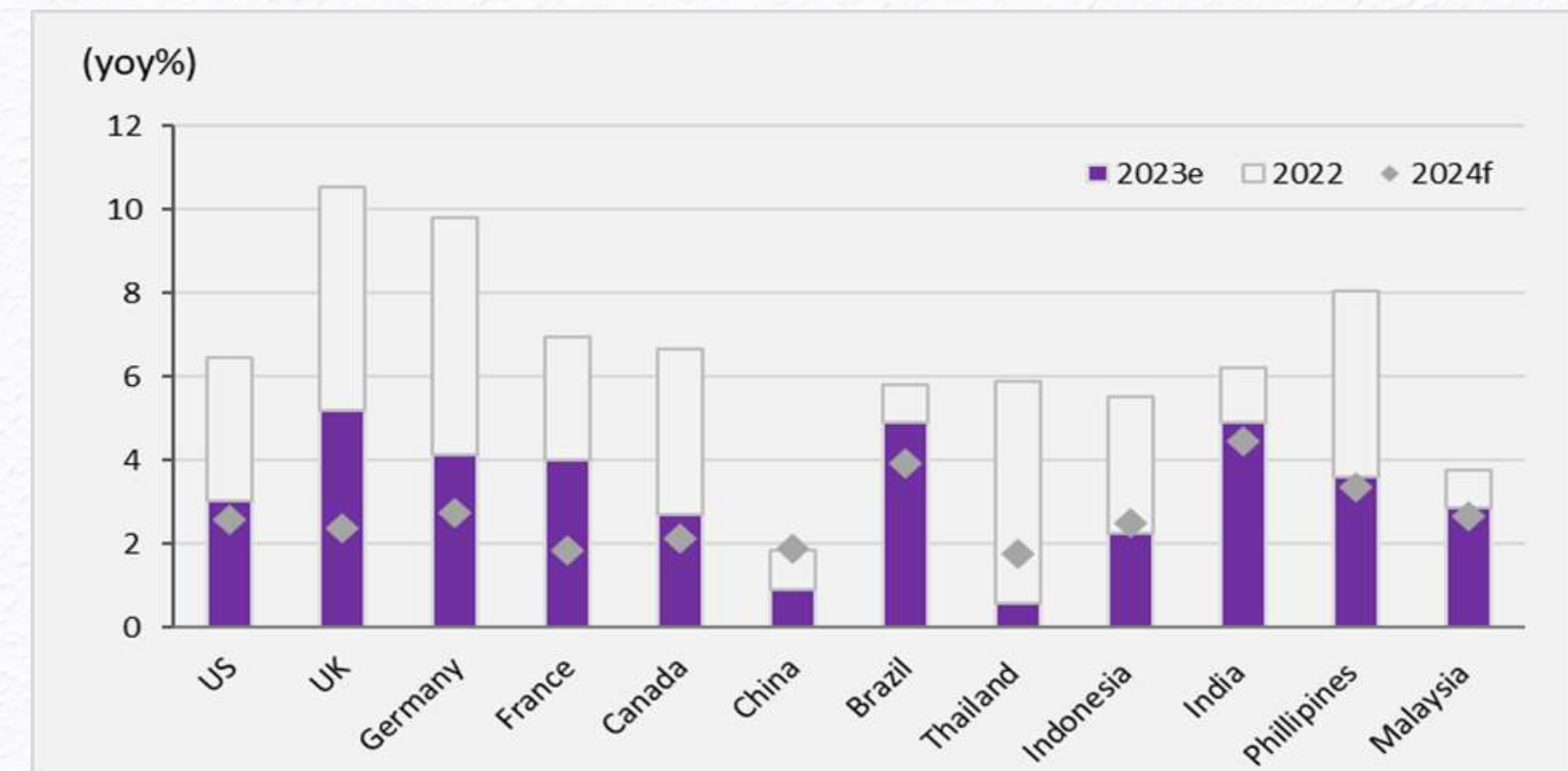
- Flattening curve: rate hiking led to flattening YC in many markets
- Spread compression: IndoGB enjoyed further compression in spread, the most within peers in the last 3 years

2024: Disinflation + Slower Growth --> Door for rate cuts

Global economic projection

	2022	2023F	2024F		
			IMF	ADB	Consensus
World	3.5	3.0	2.9	n.a	2.6
Adv Economies	2.6	1.5	1.4	1.3	1.1
United States	2.1	2.1	1.5	1.8	1.2
Euro Area	3.3	0.7	1.2	0.8	0.5
Japan	1.0	2.0	1.0	0.6	0.8
China	3.0	5.0	4.2	4.5	4.5
Indonesia	5.3	5.0	5.0	5.0	5.0

Inflation is on declining trend everywhere



- Global growth is expected to slow in 2024, weighted down by China sluggish recovery and monetary policy tightening
- Inflation is generally trending down in many part of world, partly due to moderating energy prices.
- Lower inflation gives central banks leeway to pivot

Last Guidance From the Fed

Fed expects three cuts in 2024

Variable	Median ¹				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8
September projection	2.1	1.5	1.8	1.8	1.8
Unemployment rate	3.8	4.1	4.1	4.1	4.1
September projection	3.8	4.1	4.1	4.0	4.0
PCE inflation	2.8	2.4	2.1	2.0	2.0
September projection	3.3	2.5	2.2	2.0	2.0
Core PCE inflation ⁴	3.2	2.4	2.2	2.0	
September projection	3.7	2.6	2.3	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	5.4	4.6	3.6	2.9	2.5
September projection	5.6	5.1	3.9	2.9	2.5

- The end of hiking cycle is here
- Questions now lies in the timing and size (when and how much). Fed expects 3 cuts vs market 5 cuts.
- The euphoria of Fed pivot are spreading to wider region. It might trigger volatility shall the Fed fail to deliver it.

Market expects rate cut as soon as March 2024

CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
1/31/2024					0.0%	0.0%	0.0%	0.0%	20.7%	79.3%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	18.6%	73.5%	7.9%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	18.6%	73.4%	8.1%	0.0%
6/12/2024	0.0%	0.0%	0.0%	0.0%	1.7%	23.6%	67.3%	7.3%	0.0%	0.0%
7/31/2024	0.0%	0.0%	0.0%	1.6%	21.7%	63.3%	12.8%	0.7%	0.0%	0.0%
9/18/2024	0.0%	0.0%	1.4%	19.6%	59.2%	17.8%	1.9%	0.1%	0.0%	0.0%
11/7/2024	0.0%	0.9%	13.5%	45.9%	31.7%	7.2%	0.7%	0.0%	0.0%	0.0%
12/18/2024	0.7%	10.6%	38.3%	35.0%	13.0%	2.2%	0.2%	0.0%	0.0%	0.0%

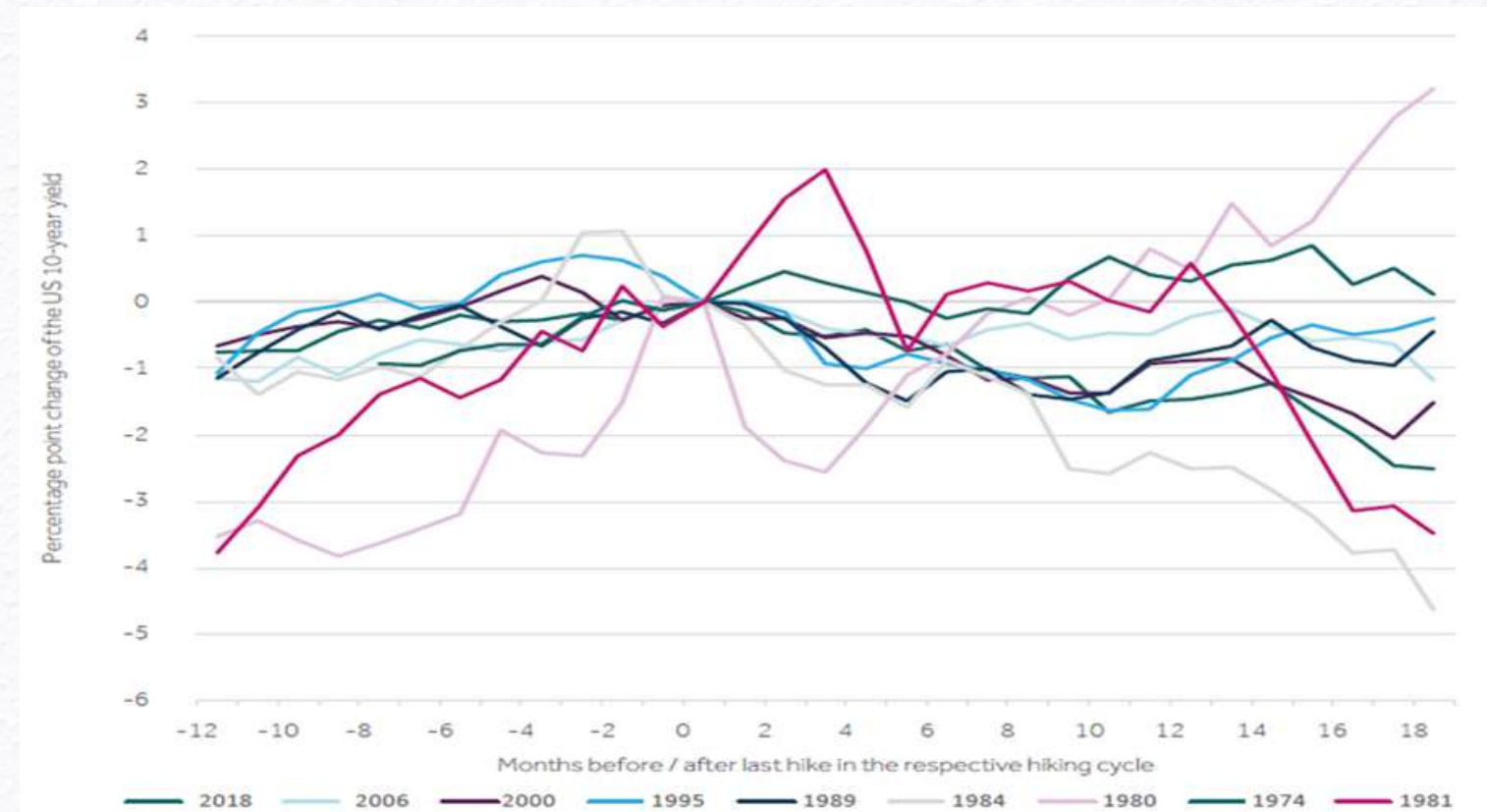
Before the Fed is done hiking, yield tend to fall

UST vs Fed rate



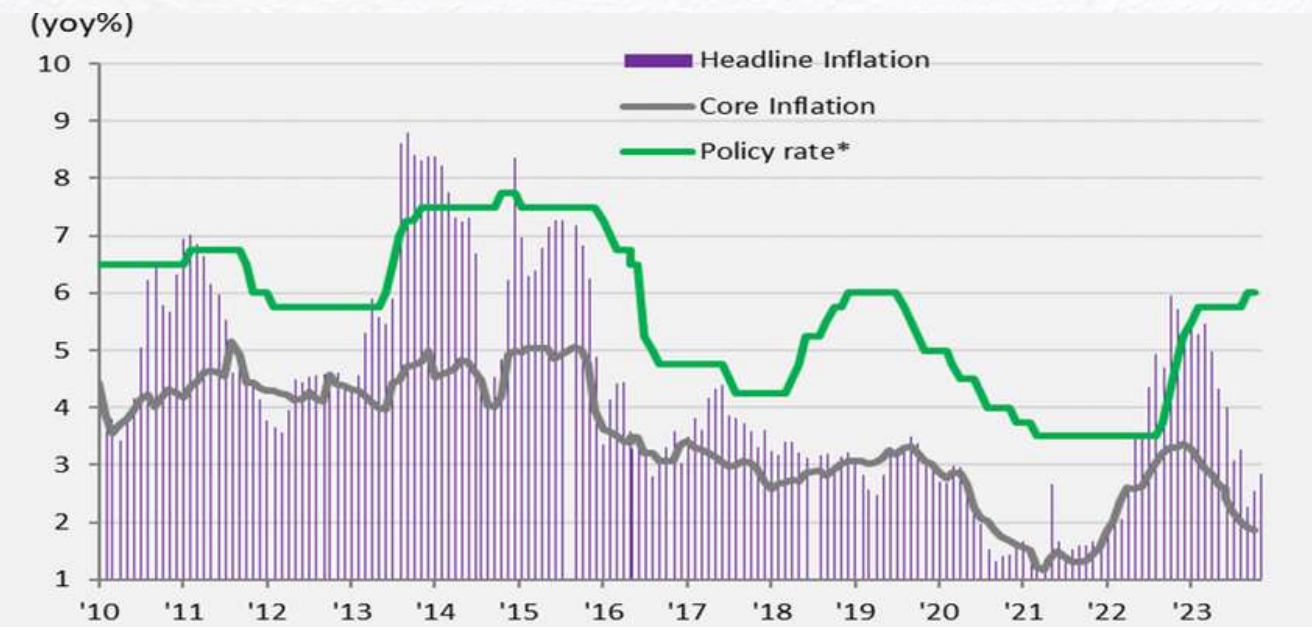
- In the last 5 hiking cycles, UST 10y-yield fell over 100 bps between the last hike and first cut

Changes of 10y UST yield before and after hiking cycles



Is there room for BI rate cut ?

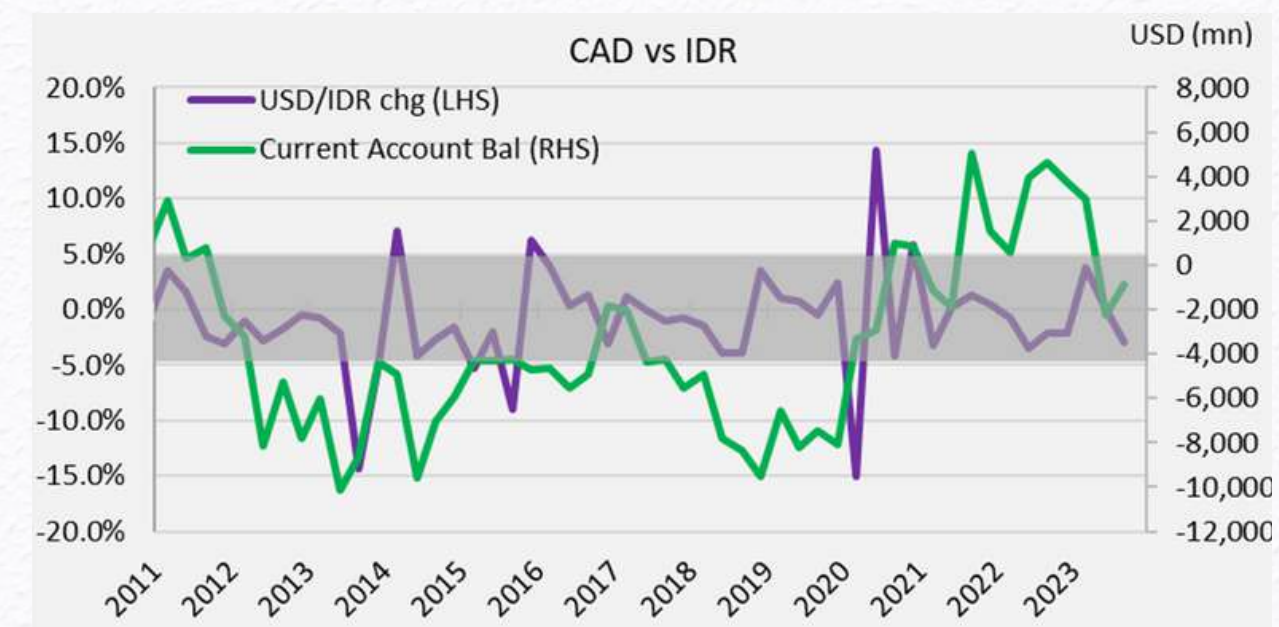
Easing inflation not enough reason for rate cut



Banking liquidity getting tighter



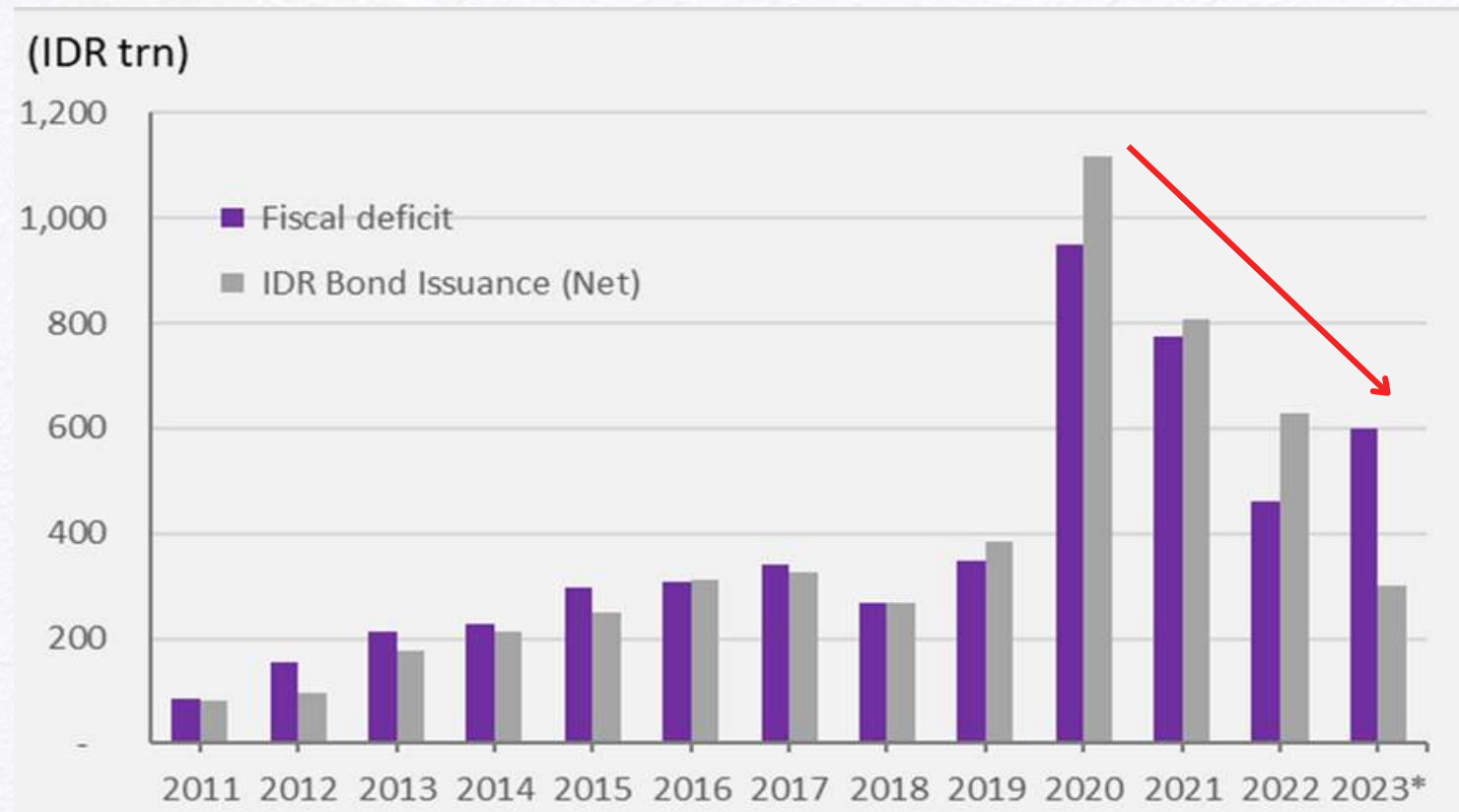
Vigilant on the CAD and rupiah risk



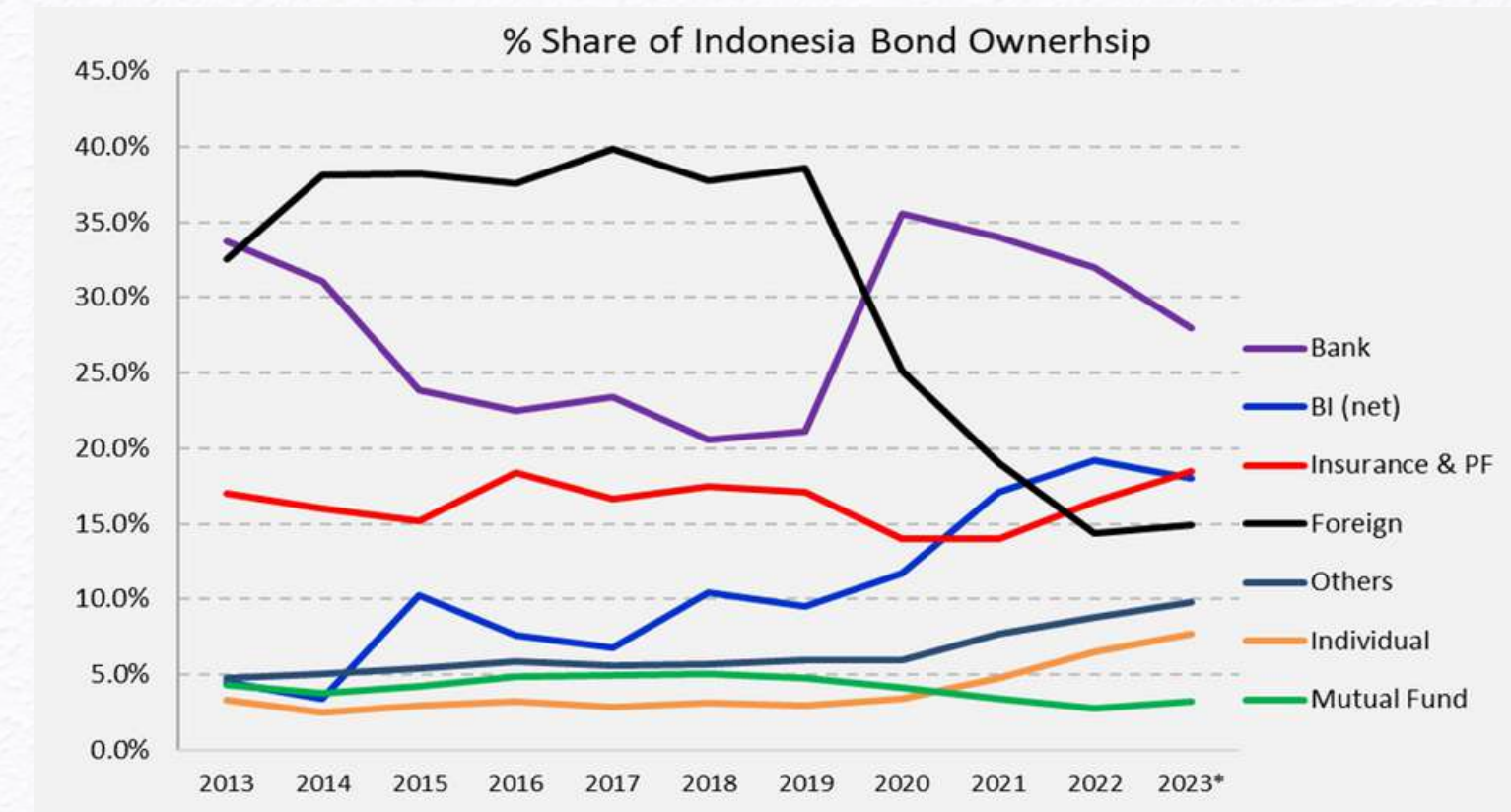
- Inflation and rupiah stability are key driver to opening door for rate cut, the latter is the most challenging part.
- BI might be behind the curve in cutting rate, as it needs more favorable macro condition
- BI might first start normalizing by reducing reserve requirement to slacken some liquidity in the banking sector

Bond supply and demand dynamic

Stable deficit, stable supply



In need of foreign demand



- Bond supply remains manageable, as fiscal deficit is turning back to pre-covid
- Tighter demand from domestic investors, but expect to pick up should BI eases policy
- Foreign demand has yet come back to pre-covid amidst tight global liquidity and currency risk

How attractive indoGB to foreigners ?

Real rates comparison

		S&P	Curr. 10Y LCY yield (%)	Curr. Policy rate (%)	Curr. real 10Y yield (%)
EM	South Africa	BB-	11.60	8.25	5.70
	Brazil	BB-	10.89	12.25	6.07
	Colombia	BB+	10.73	13.25	0.25
	Mexico	BBB	9.23	11.34	4.91
	India	BBB-	7.25	6.50	2.38
	Peru	BBB	7.00	7.00	3.21
	Hungary	BBB-	6.52	11.50	-3.38
	Romania	BBB-	6.57	7.00	-1.50
	Philippines	BBB+	6.22	6.50	2.12
	Indonesia	BBB	6.59	6.00	3.73
	Chile	A	5.63	9.00	0.83
	Poland	A-	5.34	5.75	-1.16
	Czech Republic	AA-	4.09	7.00	-4.41
	Malaysia	A-	3.74	3.00	1.94
	Thailand	BBB+	2.87	2.50	3.31
	China	A+	2.70	3.45	2.90
Major	US	AA+	4.11	5.50	0.91
	UK	AA	3.94	5.25	-0.66
	Germany	AAA	2.20	4.50	-1.00
	Japan	A+	0.64	-0.01	-2.66
Others	South Korea	AA	3.54	3.50	0.24
	Singapore	AAA	2.87	4.06	-1.83
	Vietnam	BB+	2.38	4.50	-1.07

Source: Bloomberg, Trimegah Research

- IndoGB remains attractive in real yield term, but currency risk remains key issue for foreign investors

Room for Rating Upgrade

Country	S&P Rating	GDP % yoy	Current Account Balance (% of GDP)	Fiscal Balance (% of GDP)	Gross Public Debt (% of GDP)	External Debt (% of GDP)	Inflation % yoy
Thailand	BBB+	1.80	-1.48	-3.69	53.94	40.52	0.88
Philippines	BBB+	4.30	-4.26	-6.43	61.02	27.52	5.30
Uruguay	BBB+	1.20	-2.30	-4.70	52.20	77.88	4.11
Croatia	BBB+	2.70	-13.70	0.40	68.84	74.53	7.30
Average rating BBB+		2.50	-5.44	-3.61	59.00	55.11	4.40
Indonesia	BBB	5.17	-0.55	0.72	38.11	30.08	3.27
Italy	BBB	0.40	1.26	-8.20	144.92	128.96	5.50
Bulgaria	BBB	1.80	4.50	-1.36	22.53	52.54	8.50
Peru	BBB	-0.50	0.66	-2.71	32.23	41.80	5.79
Mexico	BBB	3.60	1.40	-3.83	53.29	41.61	4.79
Average rating BBB		2.09	1.45	-3.08	58.22	59.00	5.57
India	BBB-	7.82	-0.15	-6.60	55.67	20.02	7.44
Hungary	BBB-	-2.40	-1.57	-7.93	71.49	152.09	17.60
Romania	BBB-	1.10	-6.01	-6.04	49.02	50.57	9.44
Average rating BBB-		2.17	-2.58	-6.86	58.73	74.23	11.49

- Indonesia macro fundamental is on track for the possibility of rating upgrade

Fixed Income View & Strategy 2024

Market View:

- 2024 could be the year of rate cuts, providing space for decreasing in yield
- US fiscal deficit problem could raise **term risk premium**, limiting the downside on US treasury yield
- Indonesia macro fundamental likely to sustain stable growth and on track for the **possibility of rating upgrade**.
- We do not expect material increase in **fiscal deficit**, as government is on the path of fiscal normalization post covid.
- Expect **BI to cut rate later at 3Q24**, to seek for more favorable macro, political and external condition (especially the Fed)
- **Curve might steepen** again shall BI starts easing, some countries has seen steepening curve.

Risks:

- **Valuation** is too stretched, as yield differential with the UST narrows.
- **Currency** risk needs to be watchful amidst the return of **CAD** and **slowing commodities prices**
- **Geopolitical risk** might raise risk of capital flight to safety

Strategy:

- IndoGBs near term outlook has turned to **cautiously positive**, with sentiment turning from hiking to easing.
- We are neutral overweight duration for actively managed fund, maintaining duration range at **100-120% of benchmark** to provide better flexibility when yields offer attractive entry point.
- We expect the yield on 10y IndoGB to range at **5.95 -6.50%**, with curve to steepen back

Equity Outlook 2024

Capitalizing On Opportunity In A Lower Interest
Rate Environment



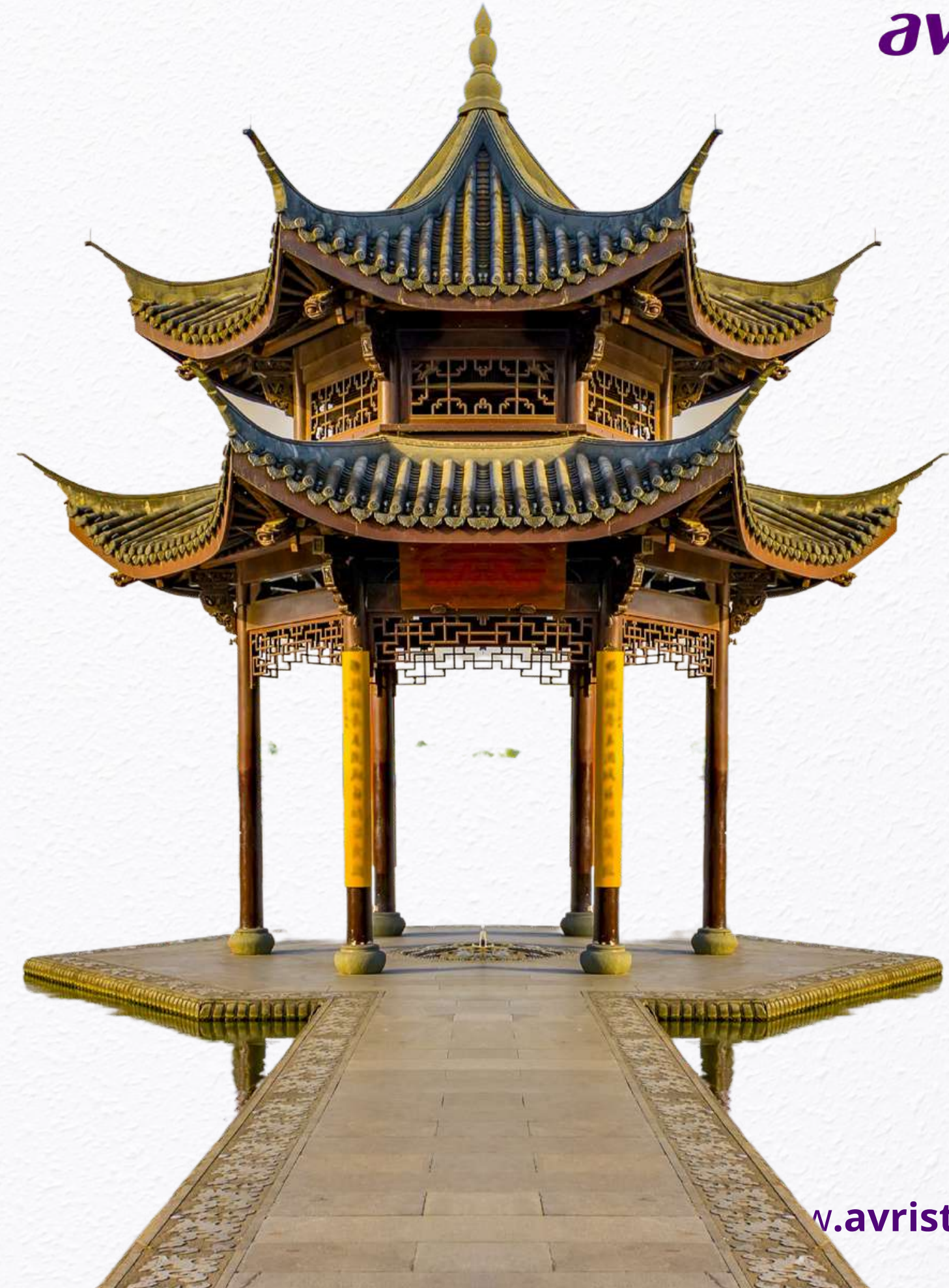
Investment Themes

There are four investment themes that we view will determine the appropriate equity investing strategy in 2024, they are:

- China's 3D Problem
- US Fiscal Deficit
- US Cyclical Downturn
- Indonesian Election

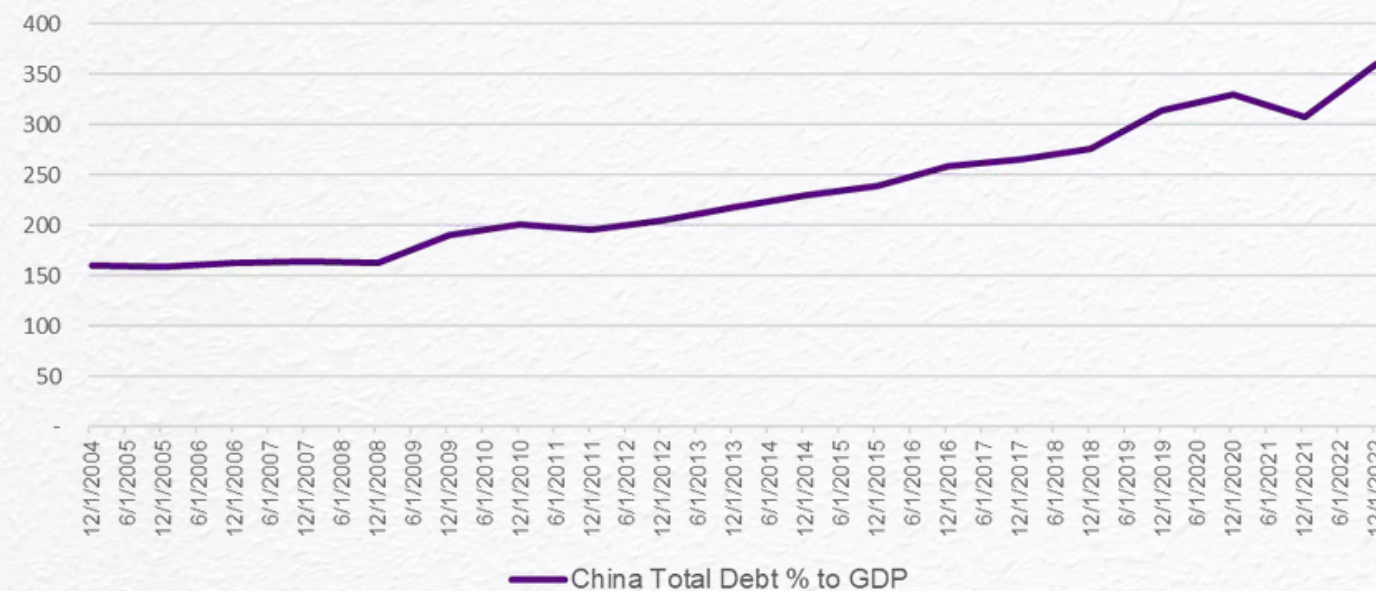
Theme #1

China's 3D Problems (Debt, Deflation, Demographics)

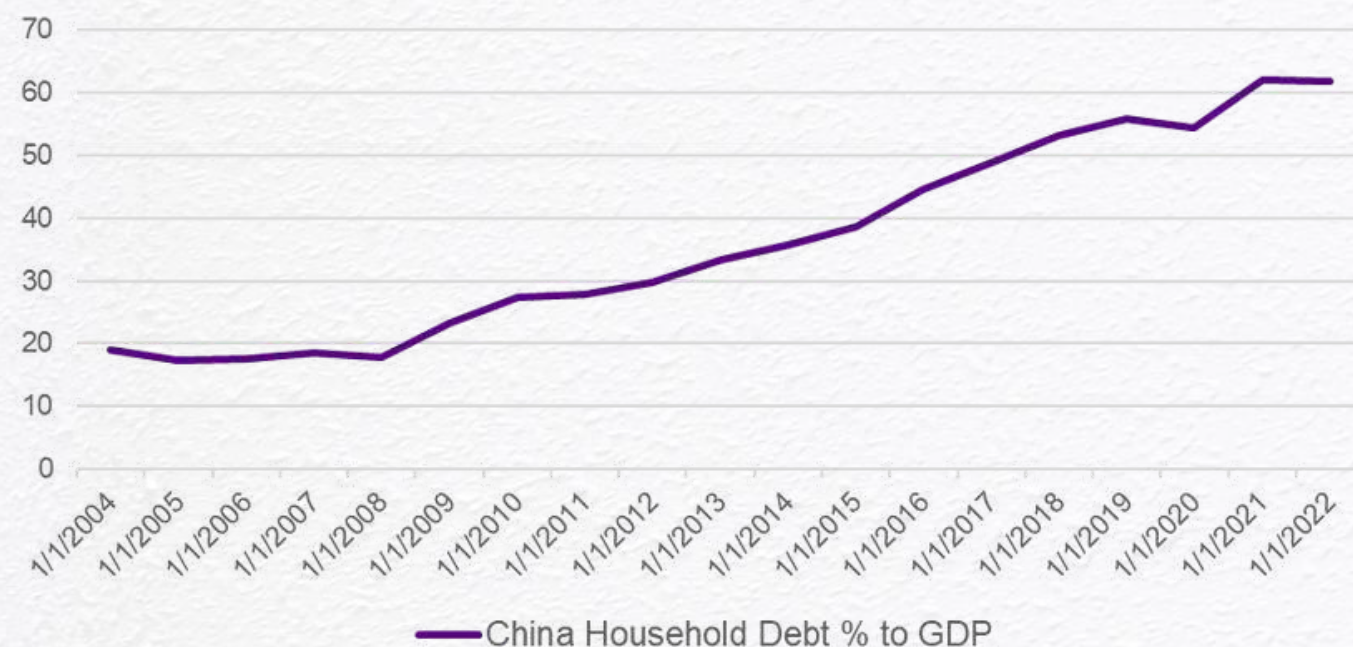


China's Debt Problem

China Total Debt Has reached 350% of GDP



Household Debt To GDP Has Tripled Since 2008



Real Estate Loans Has Flattened In The Past 2 Years, After Growing Fivefold Since 2011



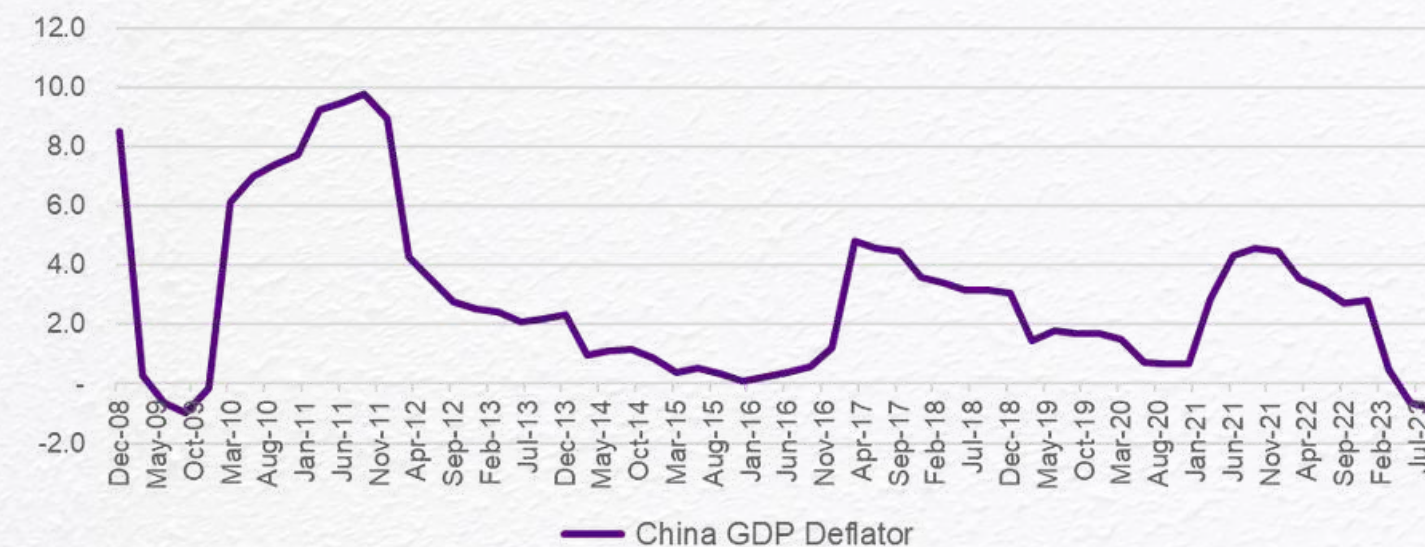
- China's debt has steadily grown over the last decade and a half, reaching 351% of GDP.
- While a debt crisis, in our view, is unlikely, this high debt nevertheless acts as a headwind to potential growth.
- The Government is purposefully rebalancing the economy away from property, and as a result we have seen real estate loans flatlining in the past few years.

China's Deflation Problem

China's Inflation Has Reached One Of The Lowest Points In Two Decades



China GDP Deflator Almost Turned Negative



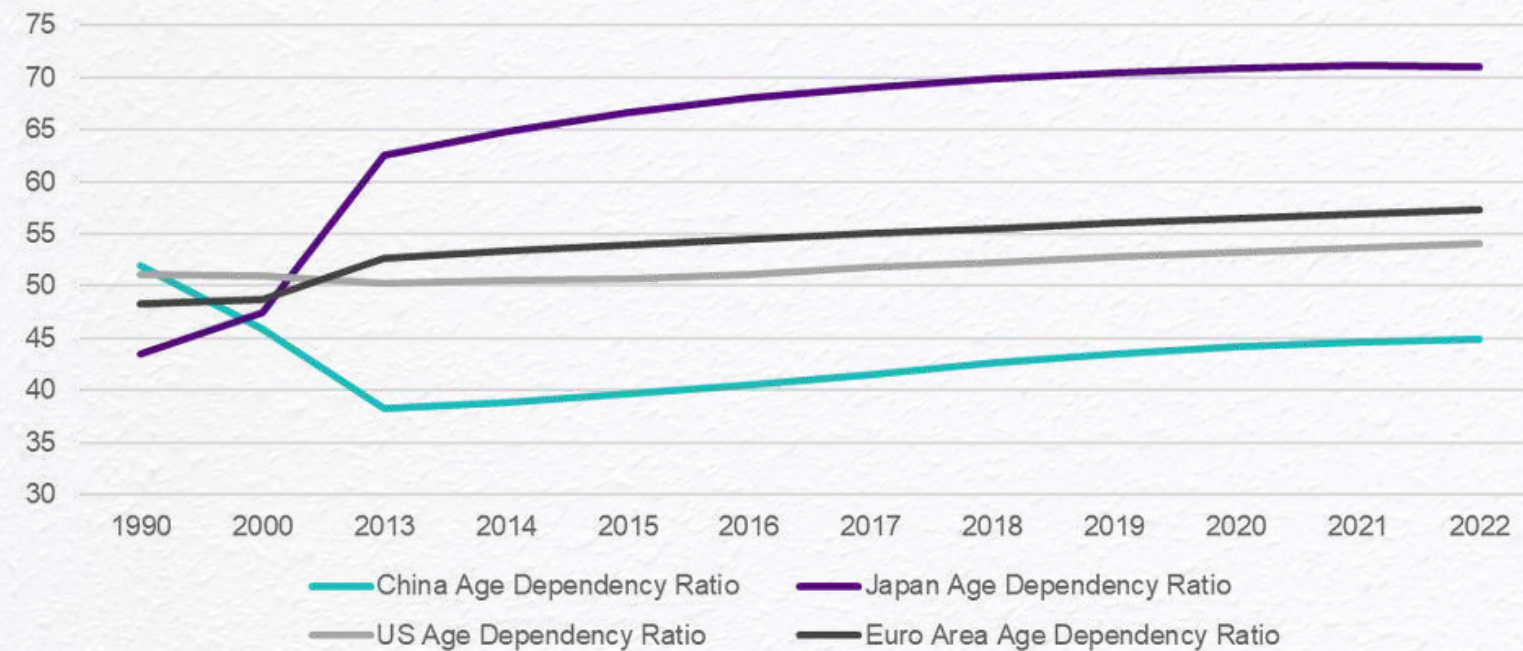
China's Money Supply Growth Is Quite Weak



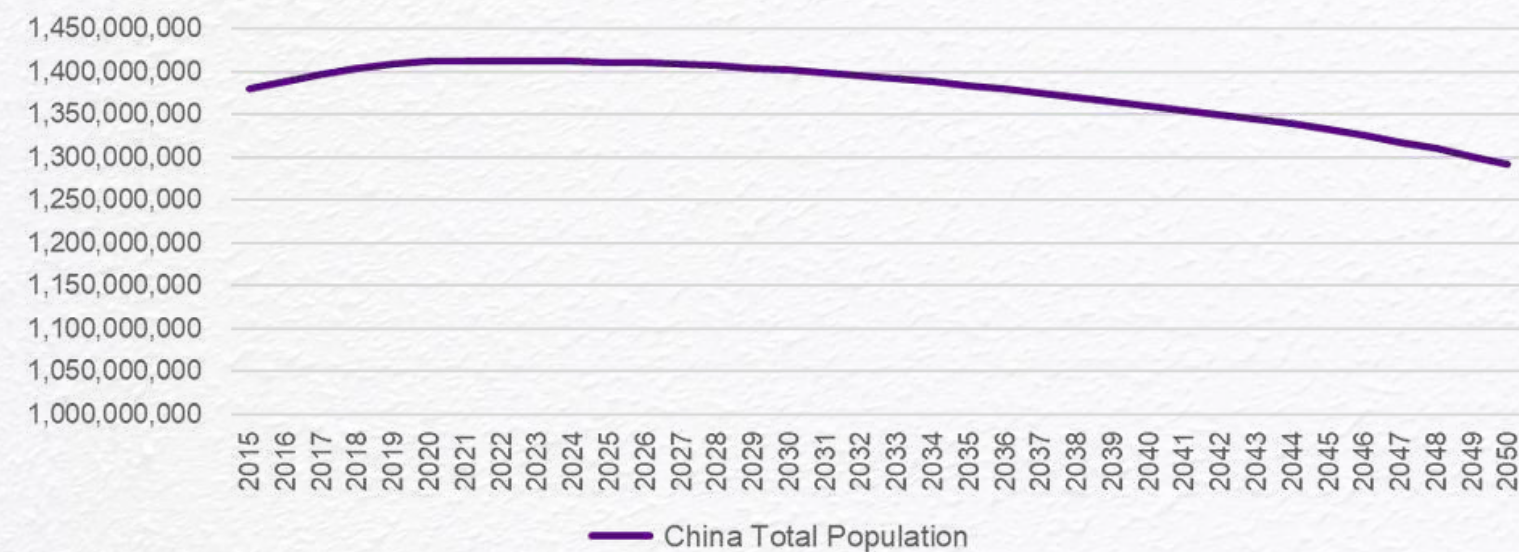
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China's Demographic Problem

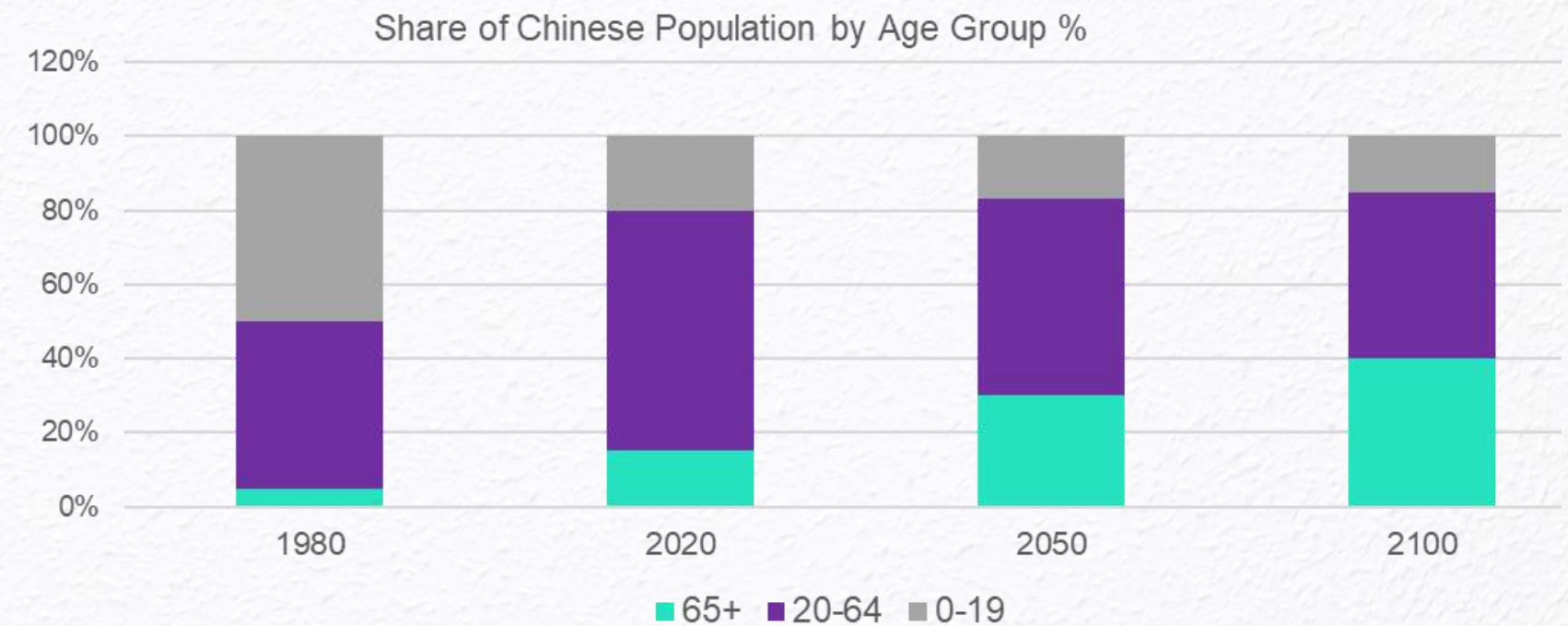
China's Age Dependency Ratio Is Rising (Worsening)



China's Population Is Shrinking



The 65+ Age Group in China Will Keep Growing



- China's demography is weakening, as seen by the increasing trend of its age dependency ratio.
- Ageing population are usually associated with higher savings rate or lower consumption, complicating the Government's effort to shift the economic engine from investment.

Theme# 1 China's 3D Problems: Implications

- The implications of Theme #1 China's 3D Problems, for our investment outlook, is that we are relatively cautious on any investments with significant exposure to China's economic growth outlook, such as metals, oil & gas, and coal
- Although we view that a crisis is unlikely, and that the market has anticipated these challenges, we do not expect significant improvement in China's GDP growth in 2024
- We are also aware of the risk that as Europe is adjusting to China's slower growth, the continent will also be consistently lagging the US in terms of growth, and thus lowering global growth overall, and is an upside risk to US dollar (downside risk to Indonesian equities)

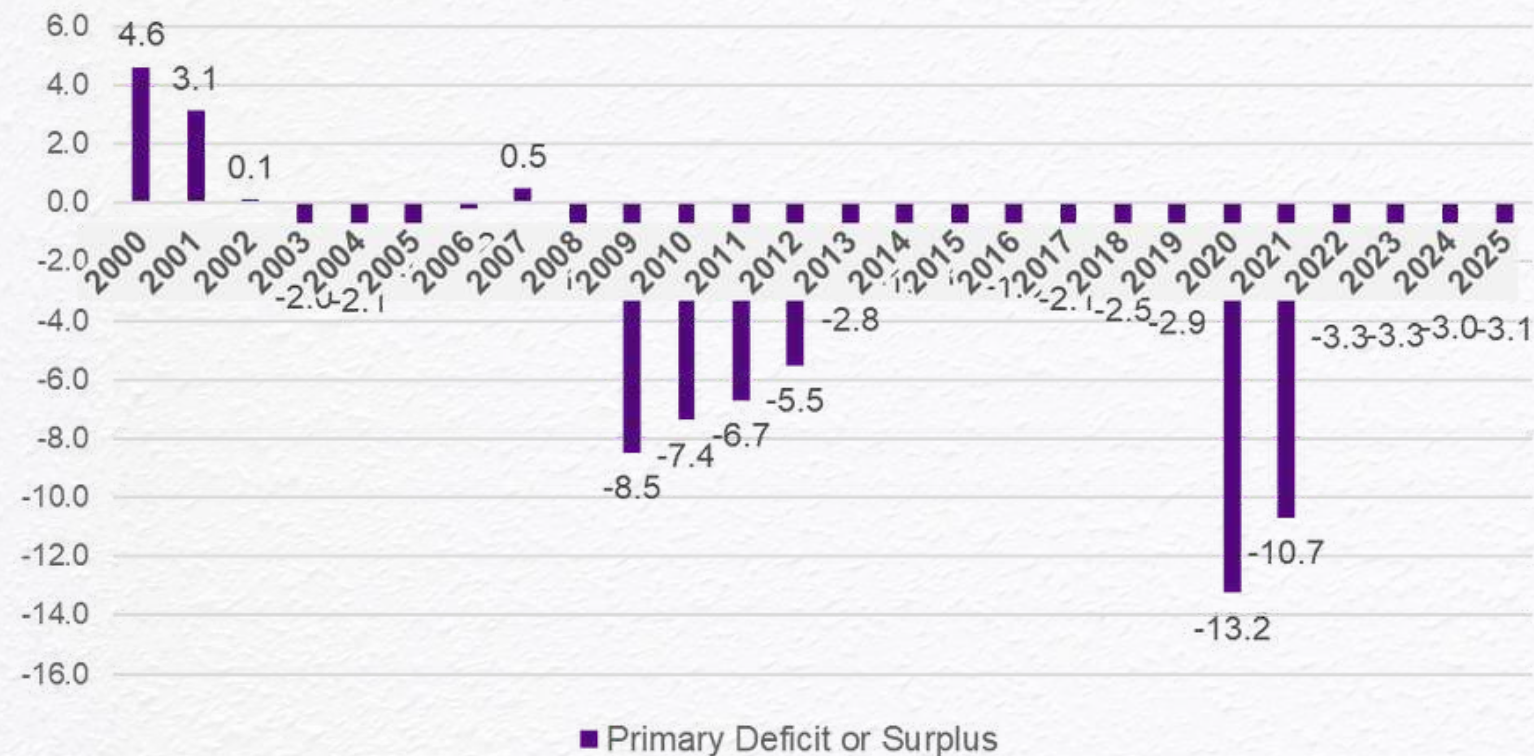
Theme #2

US Fiscal Deficit

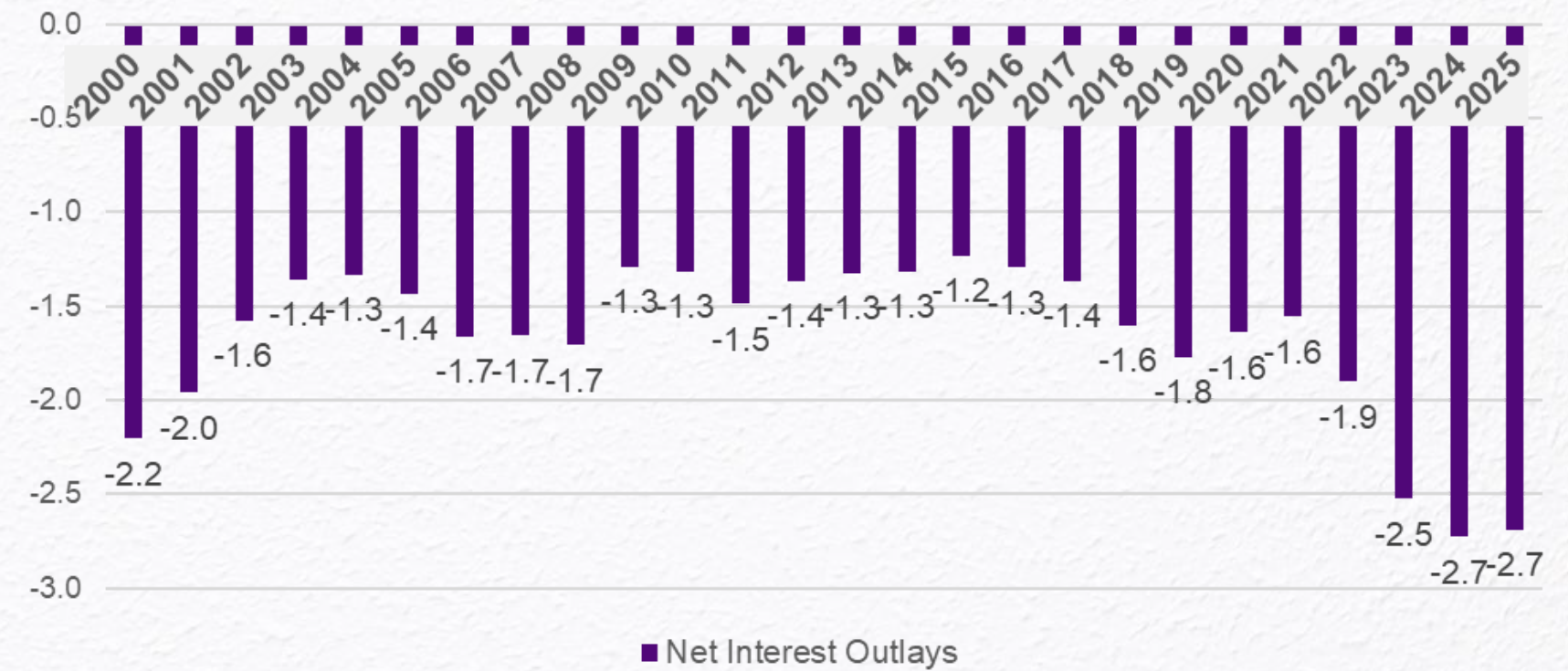


US Fiscal Balance % of GDP

US Primary Deficit Has Been Steady At Around 3%



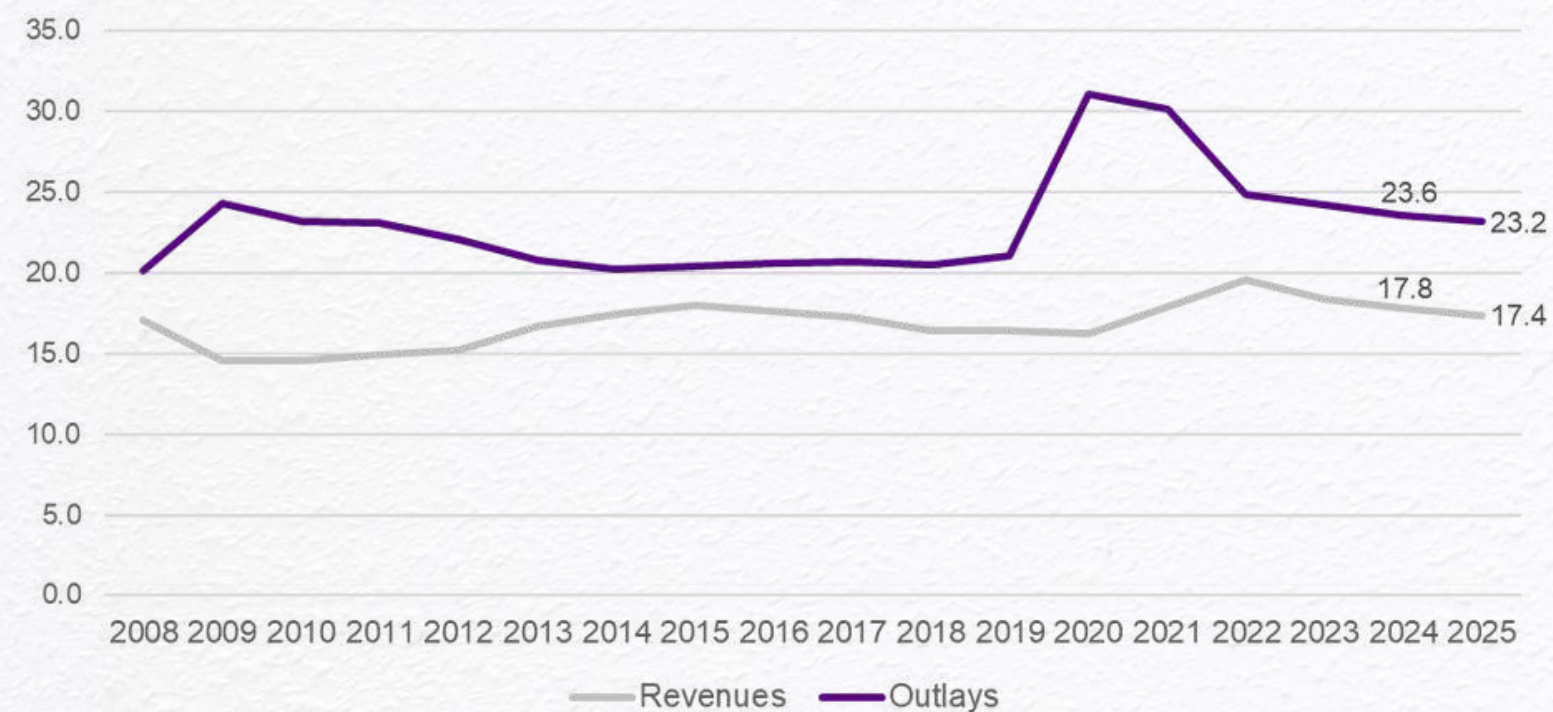
Interests Paid By US Government Have Reached 2.7% of GDP



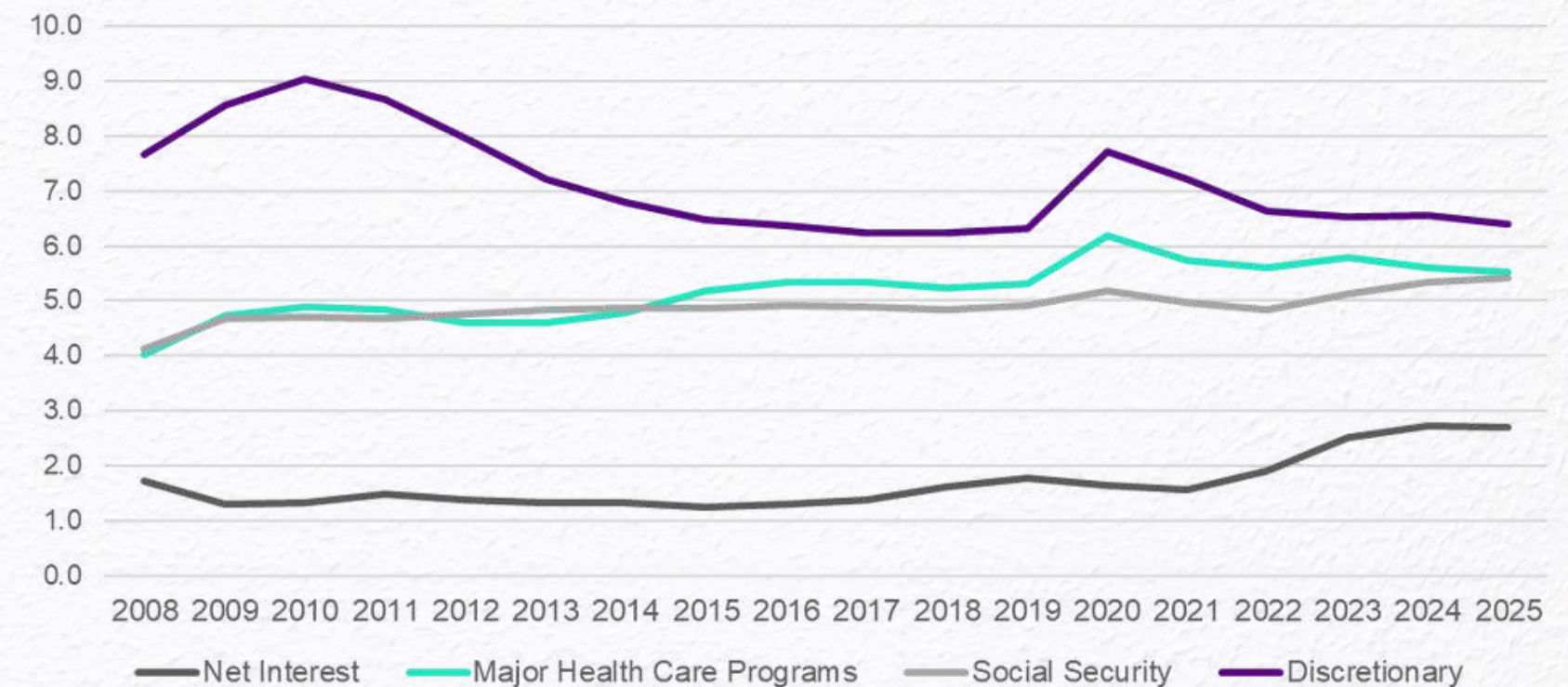
- US budget deficit has become a chronic problem, especially with the US government's net interest outlays now consisting of -2.7% of GDP, almost half of the total deficit.
- Primary deficit consist of around 3% of GDP, which is quite high though not as high as the years after the Global Financial Crisis
- With the political situation in US currently less than ideal (to put it mildly), we view that there is small probability that the budget deficit will be reduced significantly in the coming years

US Fiscal Balance % of GDP

US Government Revenues and Outlays Are Projected To Not Change Much



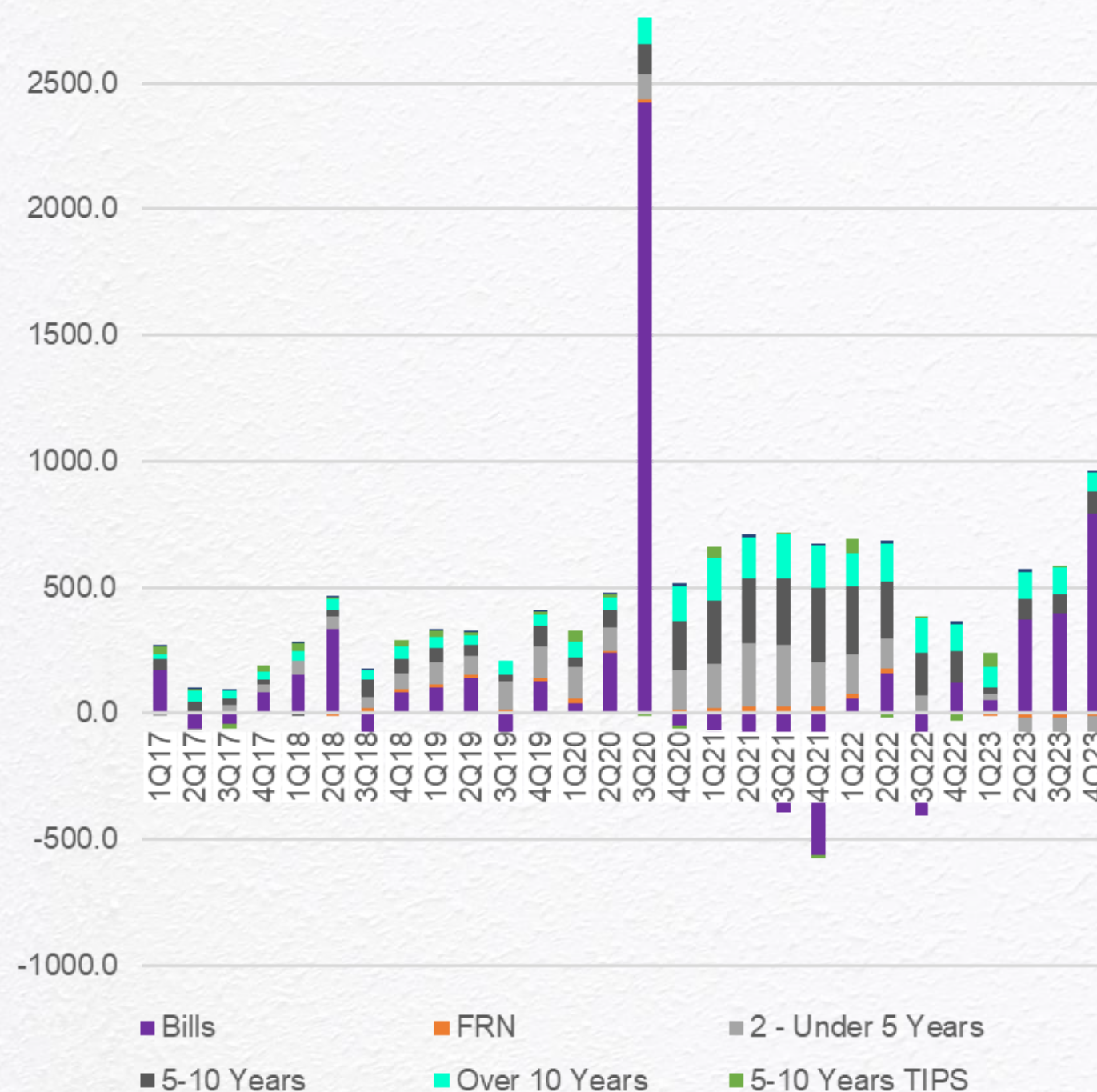
Major Spending Programs of The US Government



- Spending on the major mandatory programs—Social Security, Medicare, and Medicaid—rose by 0.3% of GDP in 2023. In 2024 we view these items overall in aggregate won't change significantly.
- We also view there won't be major changes to tax and non-tax revenue

US Treasury Issuance

US Treasury's Debt Issuance Reach USD 1 tn in 4Q23, Set To Continue



- Private investors have thus far in 2023 absorbed supply whilst being in an environment of considerable economic uncertainty and sharply rising interest rates.
- These relatively strong demand for US Treasuries are likely to continue especially if the economy is slowing down and inflation continue its downtrend
- Therefore we view that the surge in supply while a significant risk, might be offset by demand if the above scenario happens

Theme# 2 US Fiscal Deficit : Implications

- The implications of Theme #2 US Fiscal Deficit, for our investment outlook, is that, although we expect demand for US Treasury bills and bonds to still be strong (due to our expectations that the US economy will soften and inflation will come down), we are also aware that the supply will still be elevated, and any upside surprise on inflation can be a major risk to US (and impacting Indonesian) bonds and equities
- We view that if 2024 will as expected be the year of rate cuts (in US and Indonesia), Indonesian equities will tend to do well, but as we approach end of 2024, it is likely the market will focus on these chronic US fiscal issues again and risks will be back in most markets (as US bond yields are the benchmark risk free rate of the world)

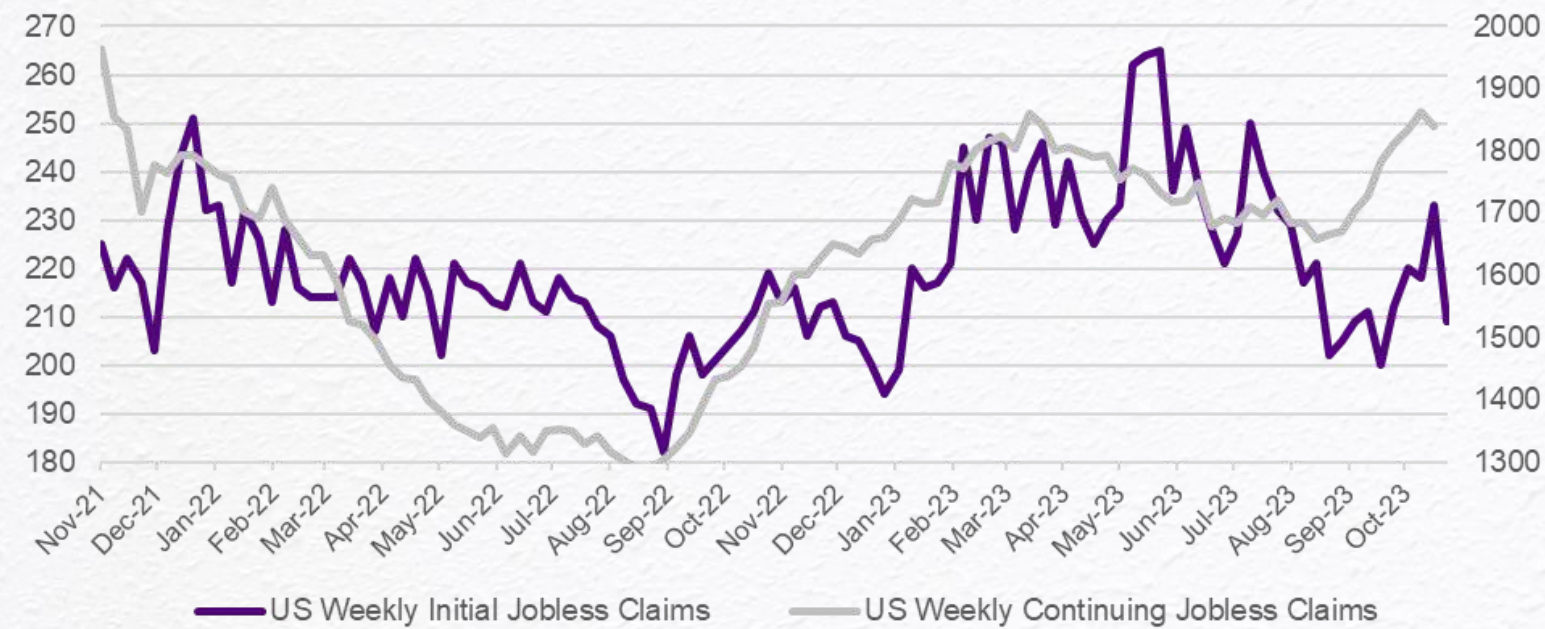


Theme #3

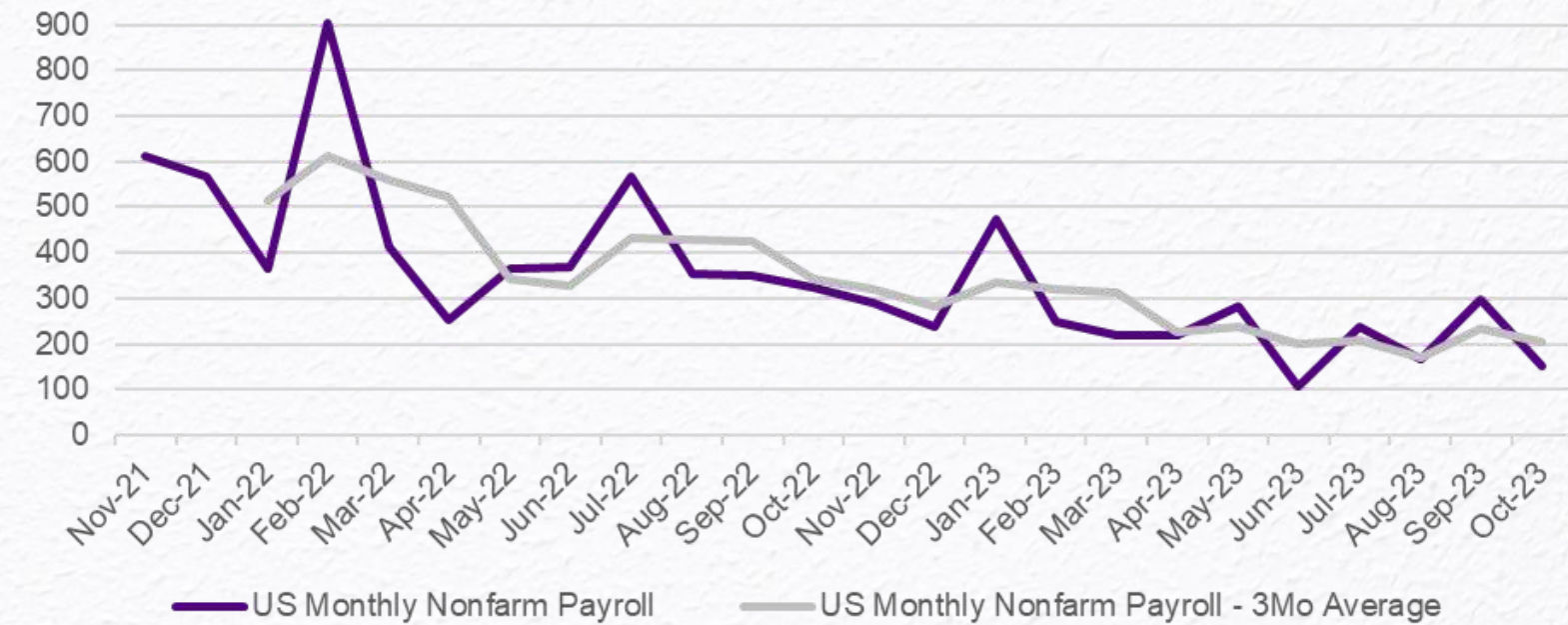
US Cyclical Downturn

US Labor Market: Finally Slowing Down?

US Weekly Jobless Claims Has Shown An Upward Trend



US Monthly Nonfarm Payroll Has Shown A Weakening Trend



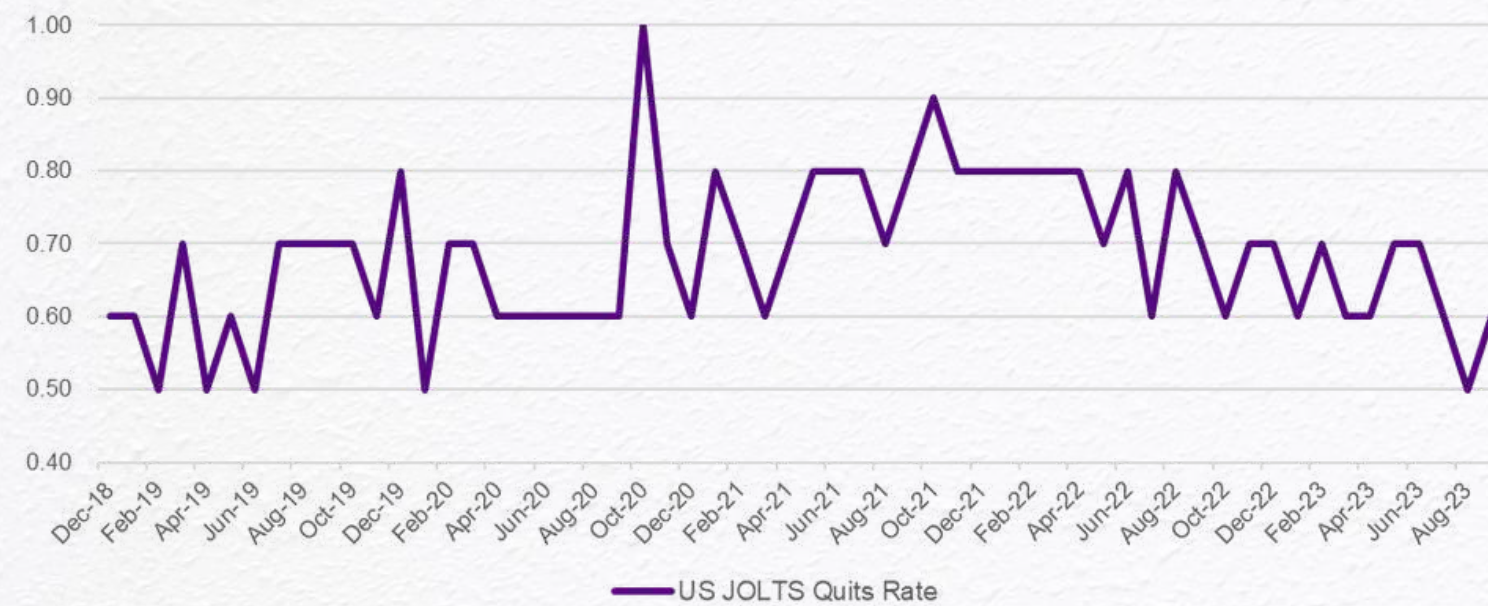
US Average Hourly Earnings Growth Have Weakened A Bit



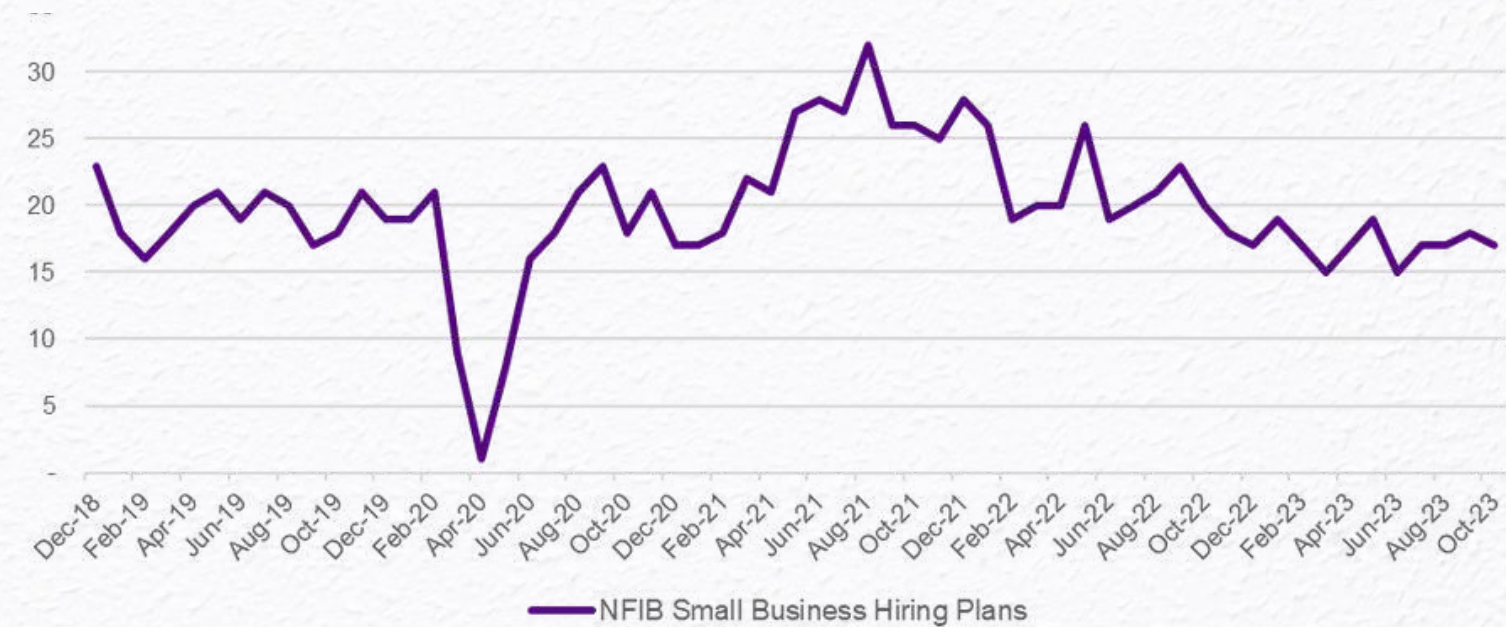
- The US labor market which has proven to be resilient so far in 2023 is finally showing some cracks
- As the market is now dependent on Fed being more dovish, we view this as good news
- Less hawkish Fed can support EM assets via lower dollar

US Labor Market: Finally Slowing Down?

JOLTS' Quits Rate Have Continued Its Declining Trend



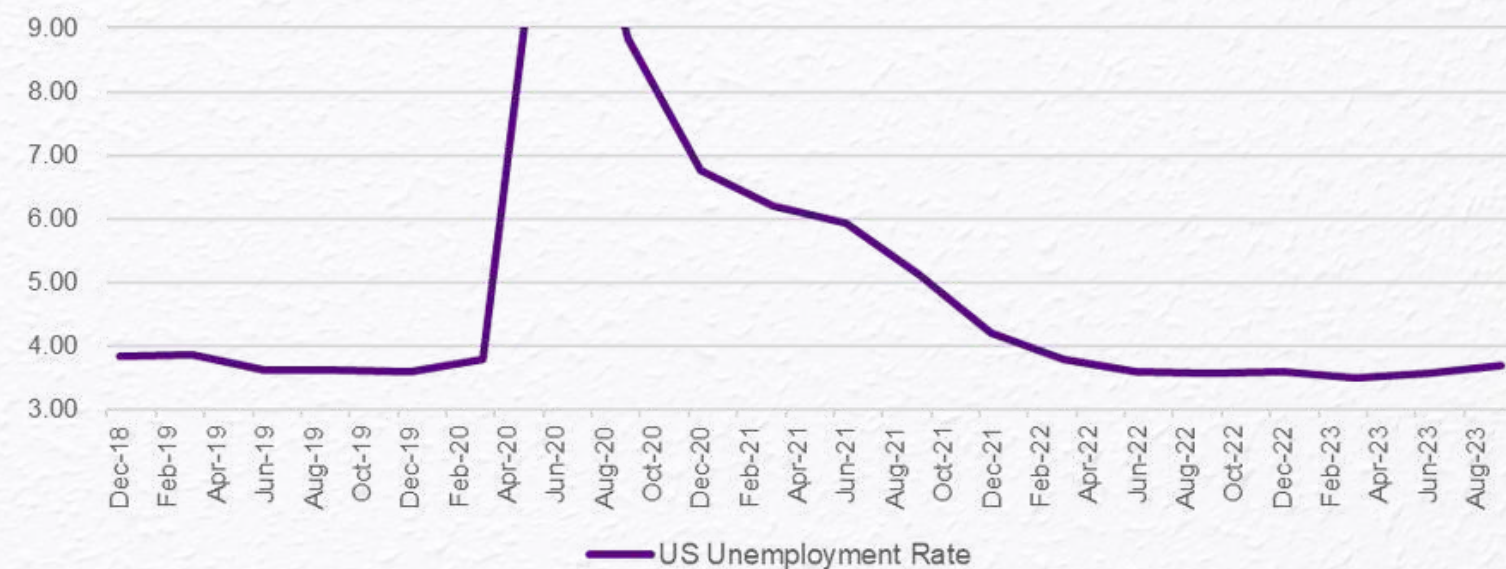
NFIB Small Business Hiring Plans Have Declined From Peak



Conference Board Labor Market Differential

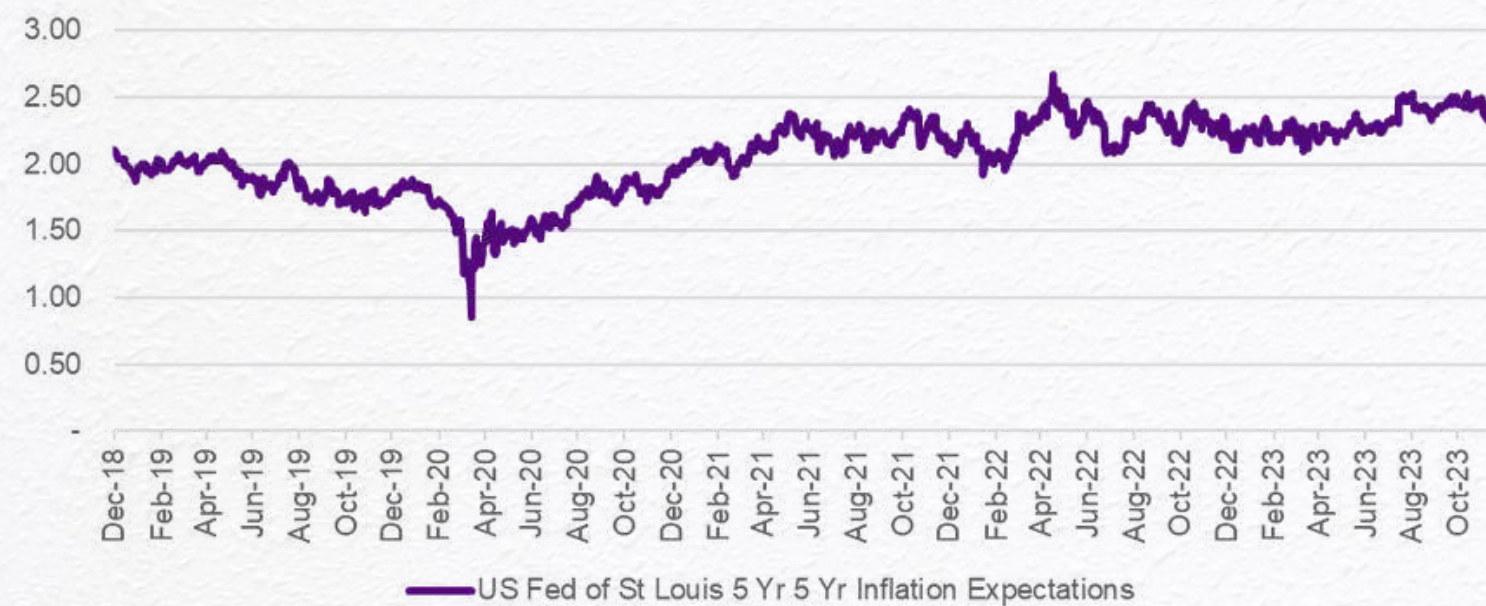


Unemployment Rate

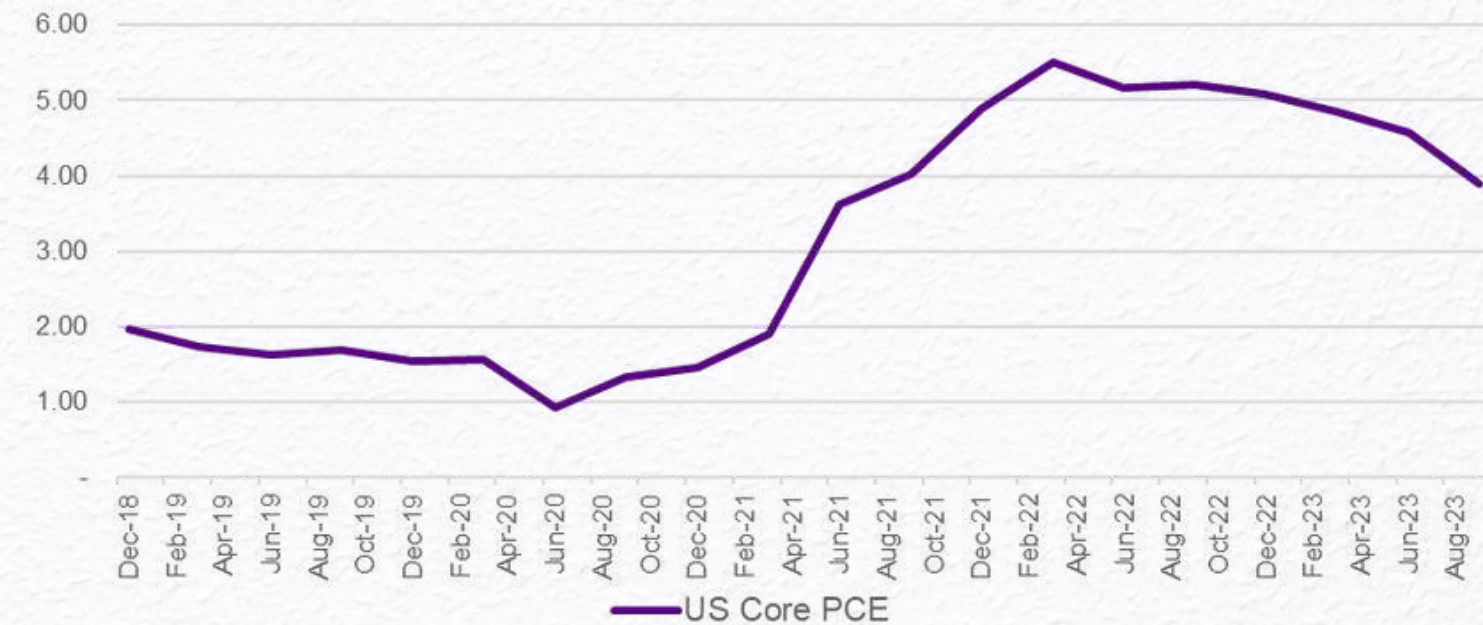


Inflation Generally Trending Down

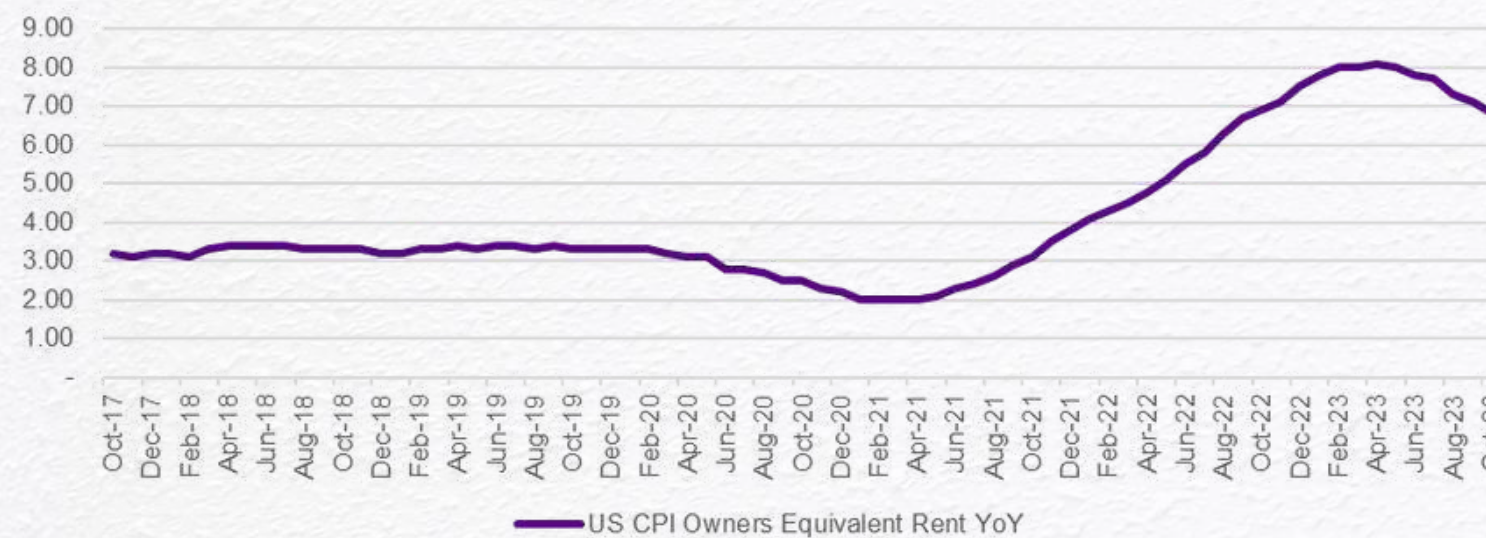
Inflation Expectations



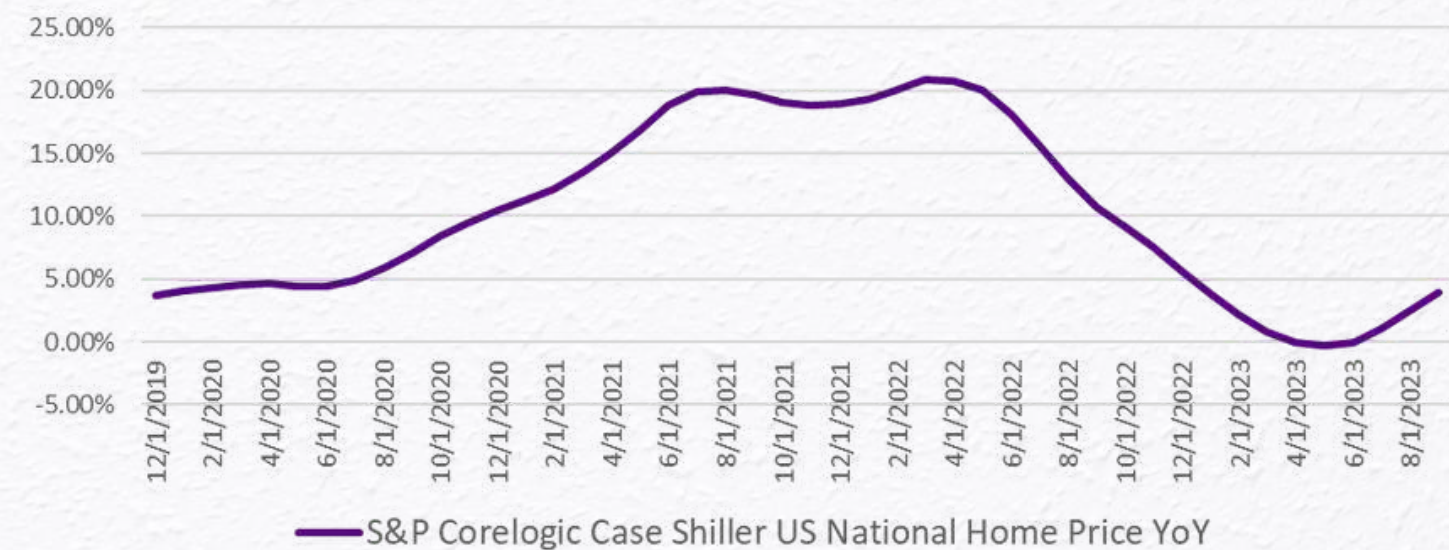
US Core PCE Has Declined To Below 4%



US CPI OER Is Projected To Decline



Case Shiller US National Home Price



Inflation Generally Trending Down

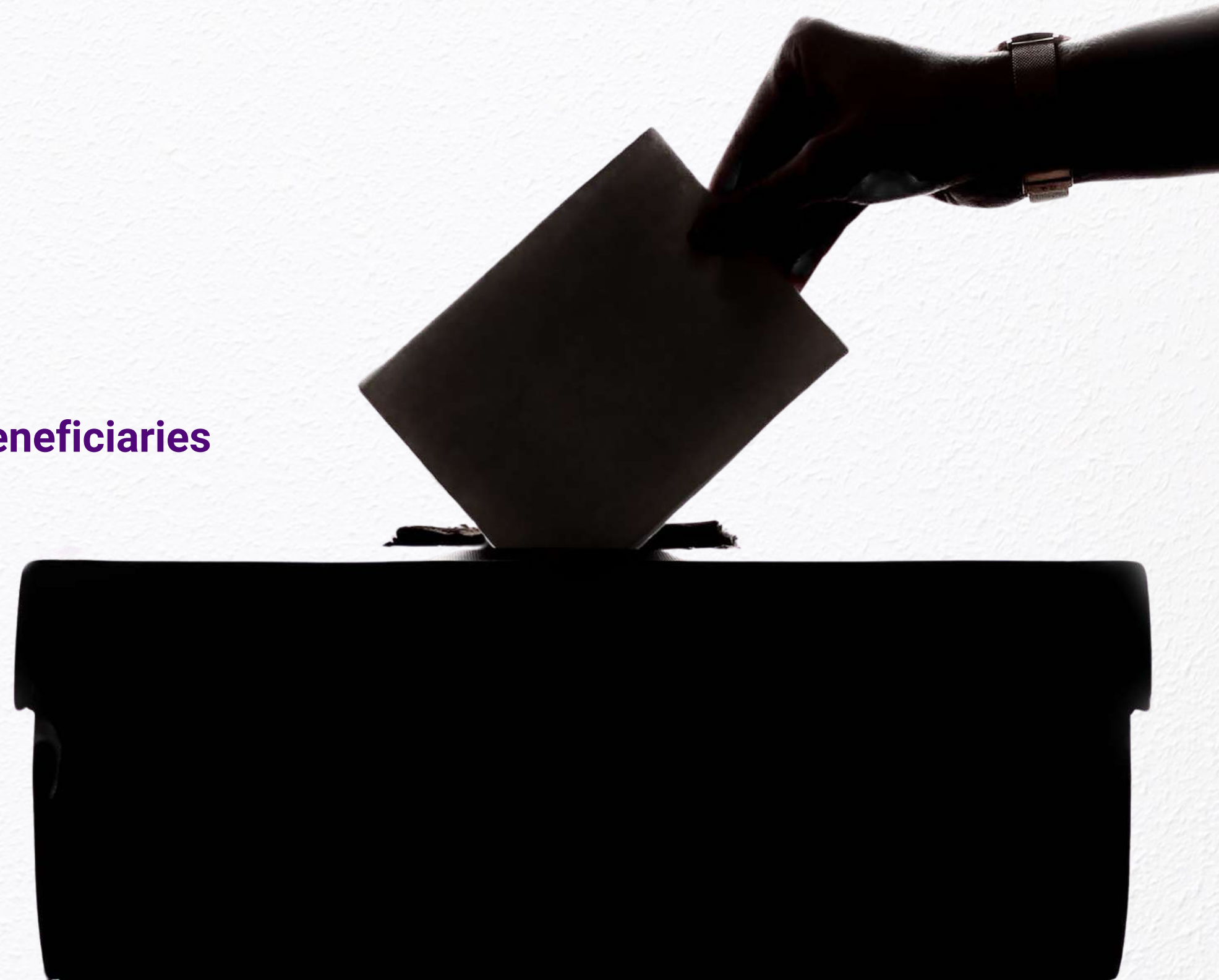
- Inflation is generally trending down, until October 2023, CPI has fallen to 3.2% yoy, from 6.5% yoy in December 2022.
- Core CPI also has fallen to 4.0% yoy in October 2023 from 5.7% yoy in December 2022.
- Core PCE price index, The Fed's favored metric, increase 3.4% yoy in October 2023, slowing from 4.4% in December 2022.
- Housing, which makes up 33% of the PCE index, is on a downward trajectory
- Core PCE Services ex Housing declined to 3.9% yoy from 4.9% in December 2022.

Theme# 3 US Cyclical Downturn : Implications

- The implications of Theme #3 US Cyclical Downturn, for our investment outlook, is that we see a better year overall for Indonesian equities in 2024. In YTD 2023 (until 6Dec), LQ45 has been flattish (+0.38%). Next year we foresee a better year for equities as disinflation in US will likely fuel rate cut expectations towards the second half of the year.
- Disinflation, coupled with election year in US, in our view are strong enough justifications for The Fed to cut rates
- Key question will be whether the slowdown in US will morph into a recession, in which case equities might underperform again (risk-off environment)

Theme #4

Election: How big is the impact and who will be the beneficiaries



2024 Indonesia Election

Three candidates will compete

3 candidates for Indonesia president and vice president

Election timeline in 2024



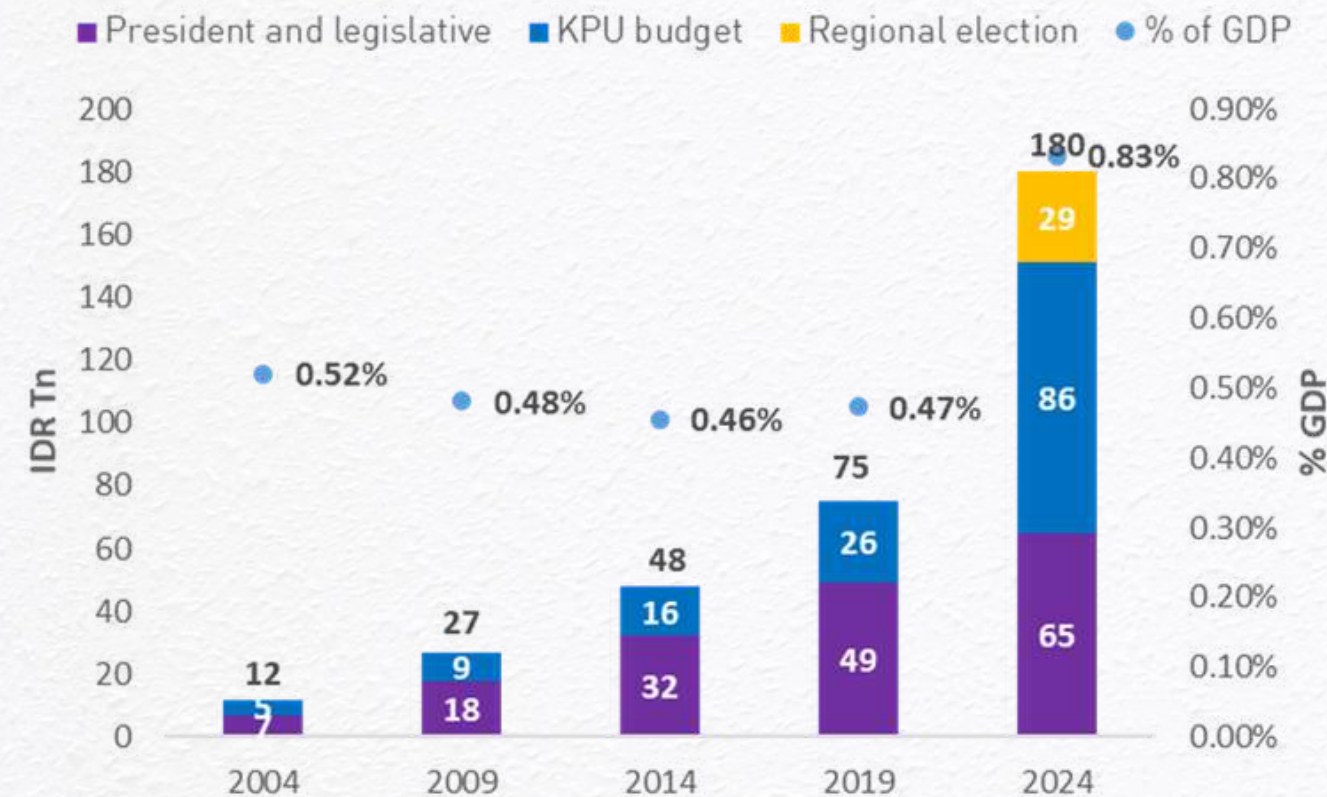
Schedule	Stages
28 November 2023 - 10 February 2024	Election campaign period
11 February 2024 - 13 February 2024	Quiet period
14 February 2024 - 15 February 2024	Voting and calculation
15 February 2024 - 20 March 2024	Recapitulation of calculation
If election in 2 round	
2 June 2024 - 22 June 2024	Election campaign period 2
23 June 2024 - 25 June 2024	Quiet period 2
26 June 2024 - 27 June 2024	Voting and calculation 2
27 June 2024 - 27 June 2024	Recapitulation of calculation 2
20 October 2024	Formal inauguration for president

- 2024 will be election year for Indonesia president, regional representative council, house of representatives, and regional legislative council candidates.
- We know that the election campaign period is crucial to get big votes. The candidates must present their great ideas that will be implemented if they win the election. Furthermore, campaign funds is also an important thing.

2024 Indonesia Election

How much the campaign fund will inject to the economy

Election expense increase year over year



Crucial provinces with biggest voters in Indonesia

Province	Total Voter	% of Indonesia
Jawa Barat	35,714,901	19.4%
Jawa Timur	31,402,838	17.0%
Jawa Tengah	28,289,413	15.4%
Sumatera Utara	10,853,940	5.9%
Banten	8,842,646	4.8%
Total	115,103,738	62.5%

- We think that the election funds injected to the economy might be around IDR 180 trillion in 2024 or equivalent with 0.83% of Indonesia GDP target in 2024.
- Furthermore, most of the money will be distributed to crucial area or provinces as a key of victory for president and vice president candidates in our view.

2024 Indonesia Election

Election's effect to economy

Household and government spending increased in election

	2009		
	Conumption	Govt Spending	Investment
t-2	1.7	25.6	0.8
t-1	0.8	-28.7	-5.4
t+0	0.2	23.7	2.4
t+1	1.8	-0.4	6.1
t+2	1.0	33.2	2.0

	2014		
	Conumption	Govt Spending	Investment
t-2	0.05	41.47	2.82
t-1	0.22	-48.35	-4.34
t+0	1.25	32.27	3.45
t+1	3.53	4.67	2.54
t+2	0.01	41.05	2.53

Higher consumption of Non-profit organization in election

	2019			
	Conumption	Govt Spending	Investment	LNPRT
t-2	-0.07	26.54	19.09	7.45
t-1	0.04	-45.78	-5.74	6.58
t+0	1.73	36.28	0.94	2.09
t+1	3.08	-0.79	5.52	-5.2
t+2	0.04	37.05	3.69	0.39

- In our view, the campaign funds may increase household consumption.
- Government spending increase due to budget allocation to KPU and Bawaslu.
- As of 3Q23, household consumption -0.45% and government spending -3.63% (QoQ). We expect that household and government consumption will increase during 2024 election period.

2024 Indonesia Election Election's effect to economy

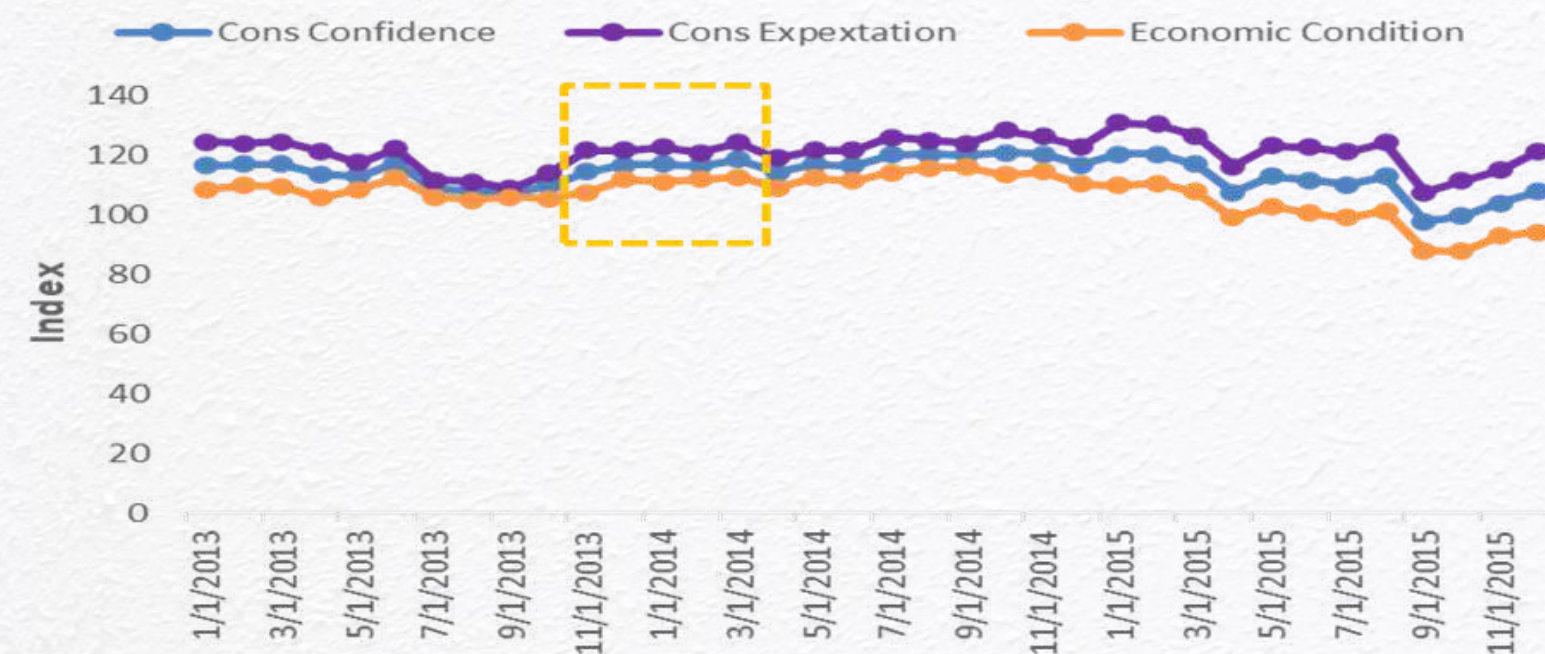
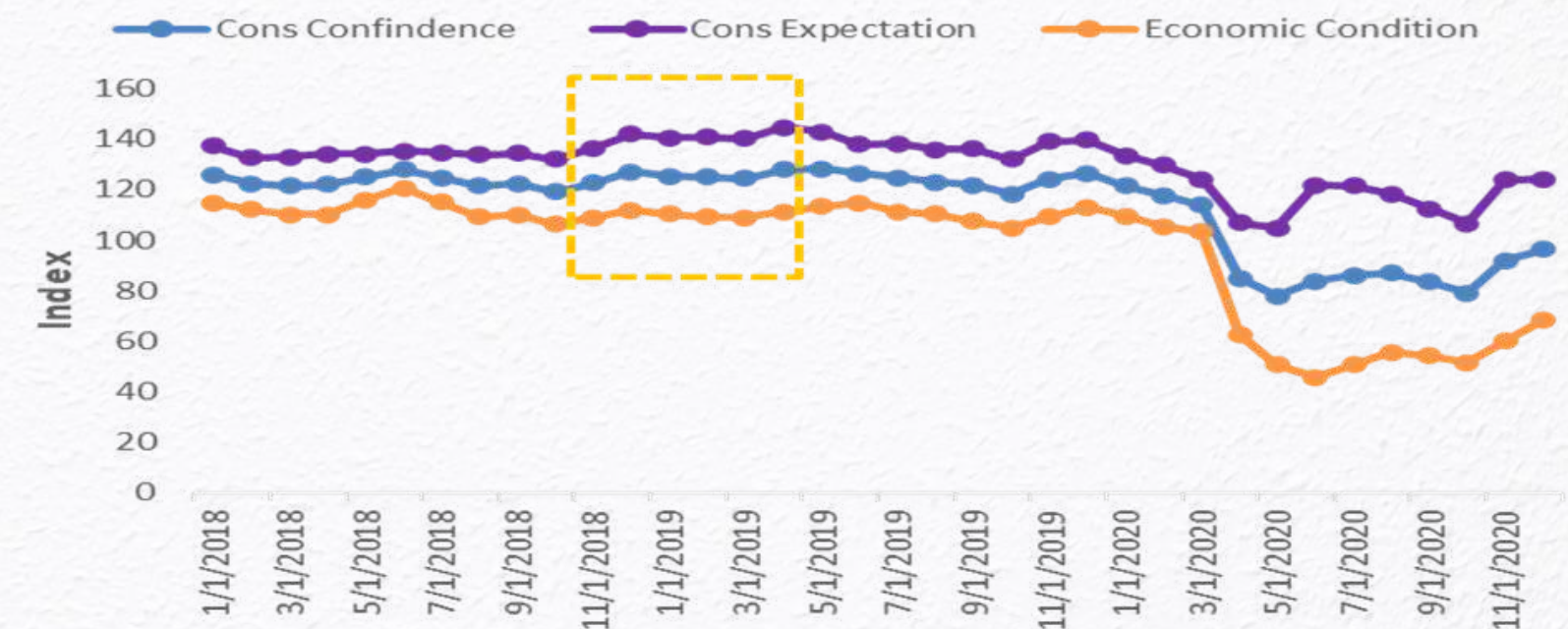
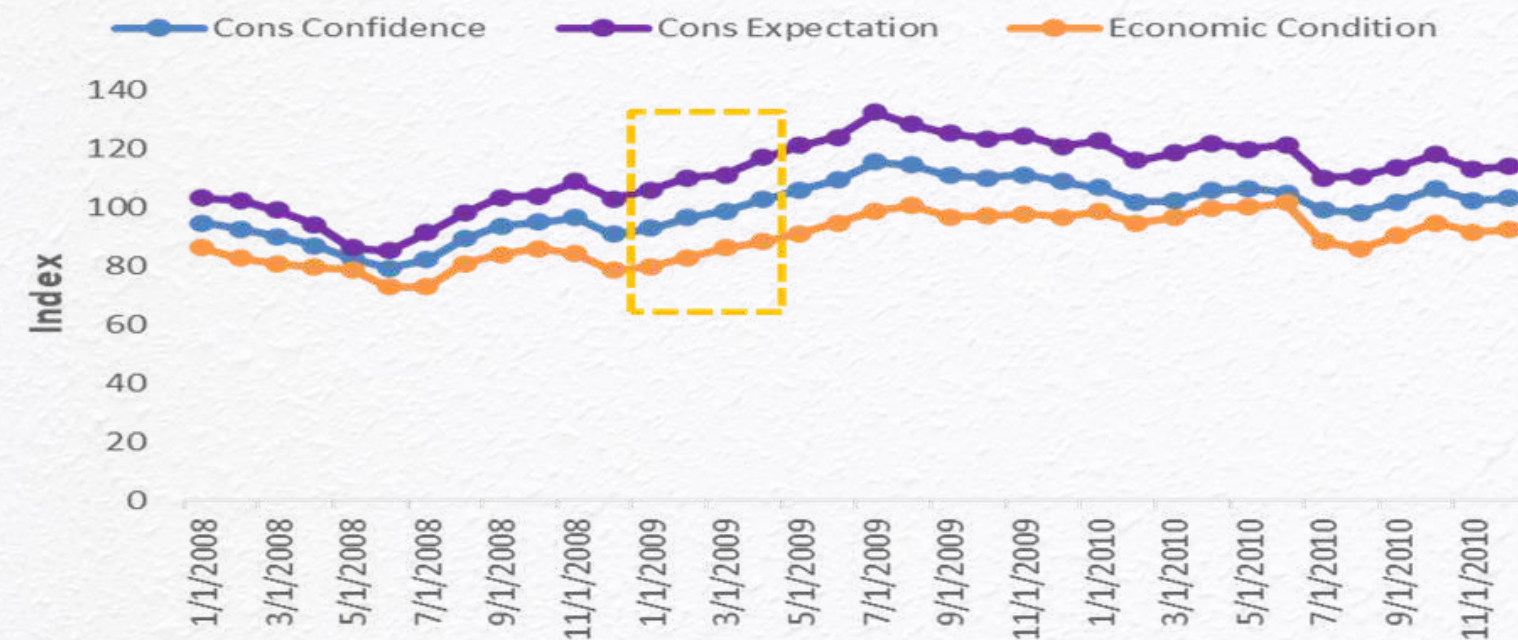
M2 tend to increase during some election period



- Money supply tend to increase due to campaign funds distributed to the economy in every election period.
- So, we expect that money supply (M2) also increase during 2024 election period especially in 4Q23 and 1Q24.

2024 Indonesia Election Election's effect to economy

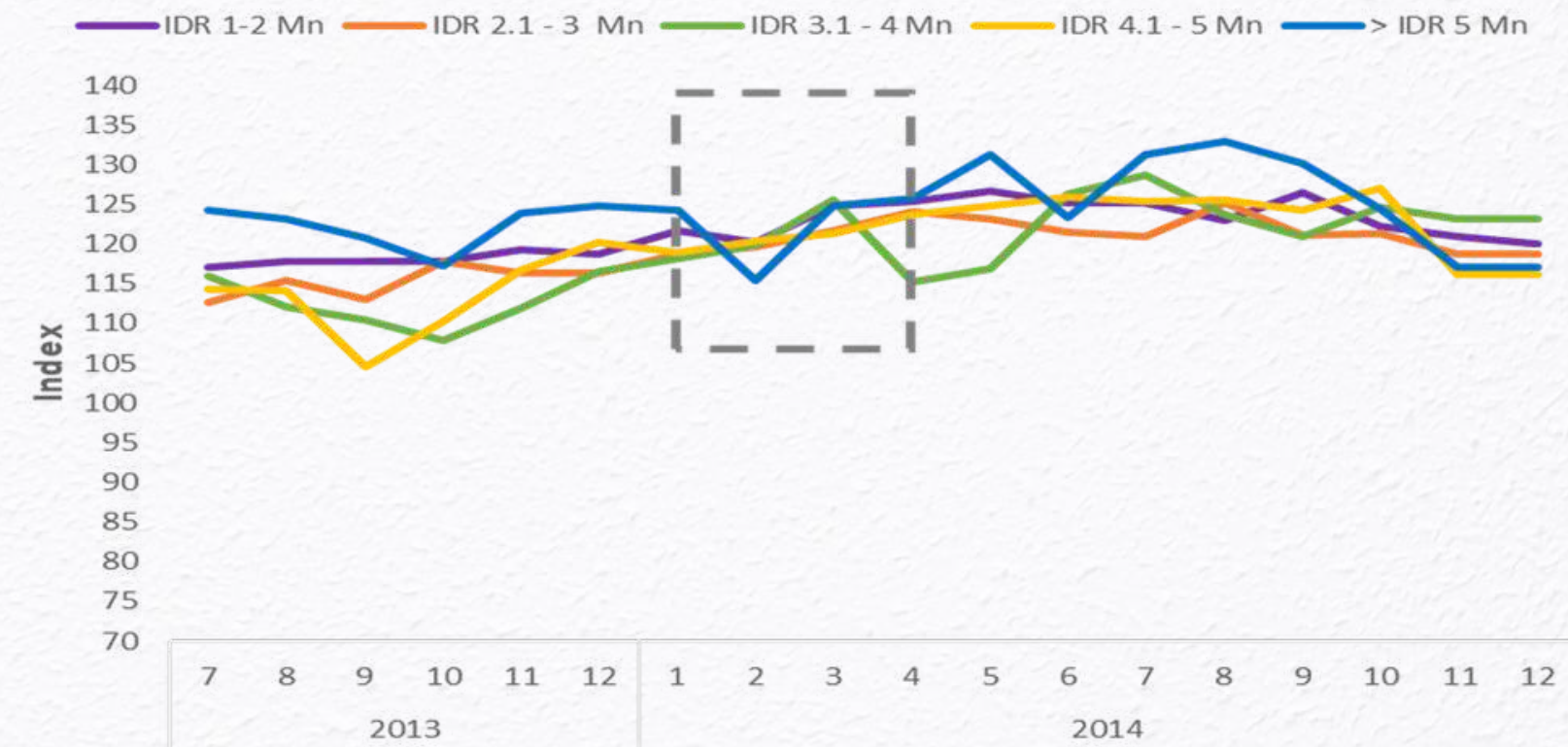
Higher consumer confidence index in election period



- Aligned with consumer improvement, Indonesia consumer confidence index also increased supported by consumer expectation and economic condition during election period.

2024 Indonesia Election Election's effect to economy

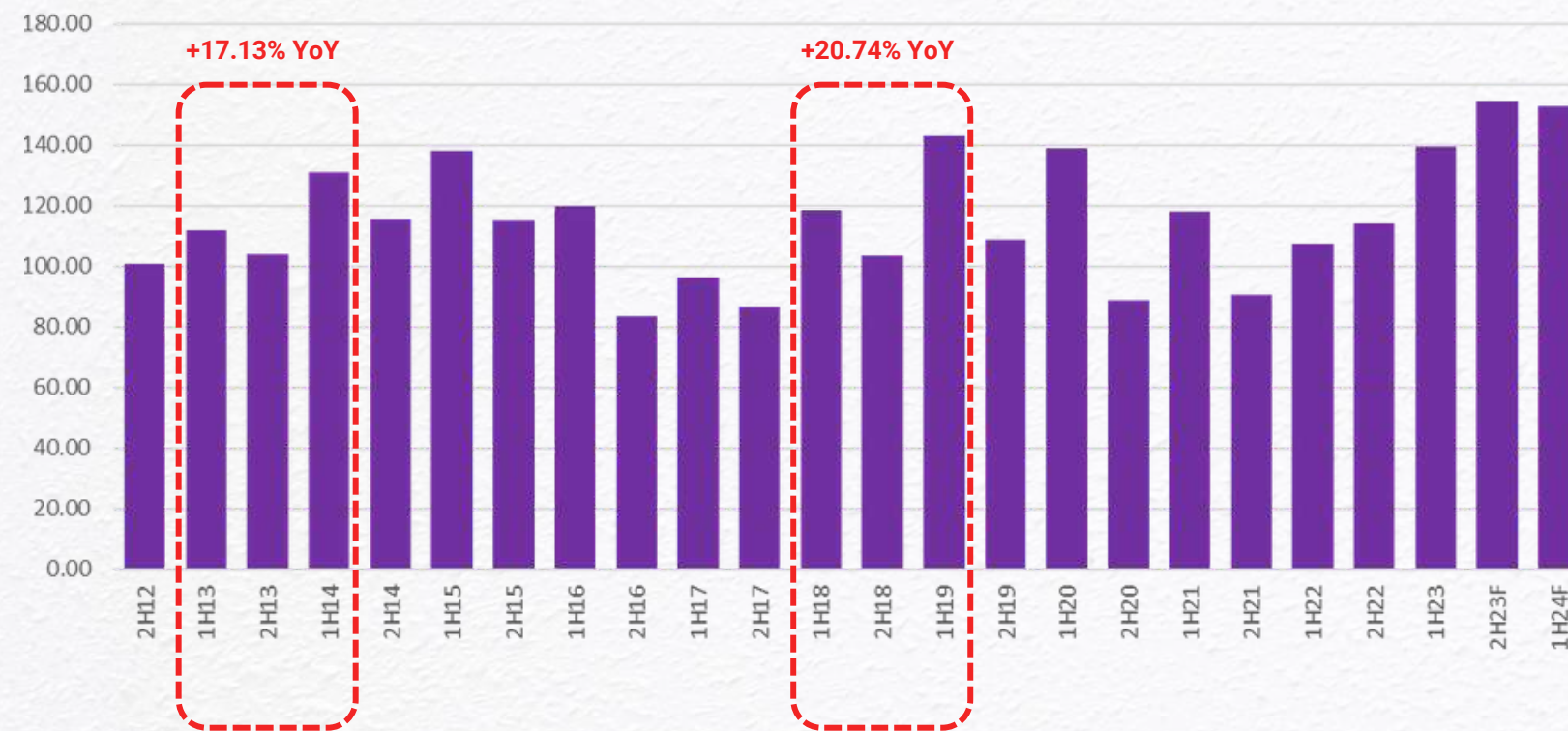
Higher consumer index for mid low consumption



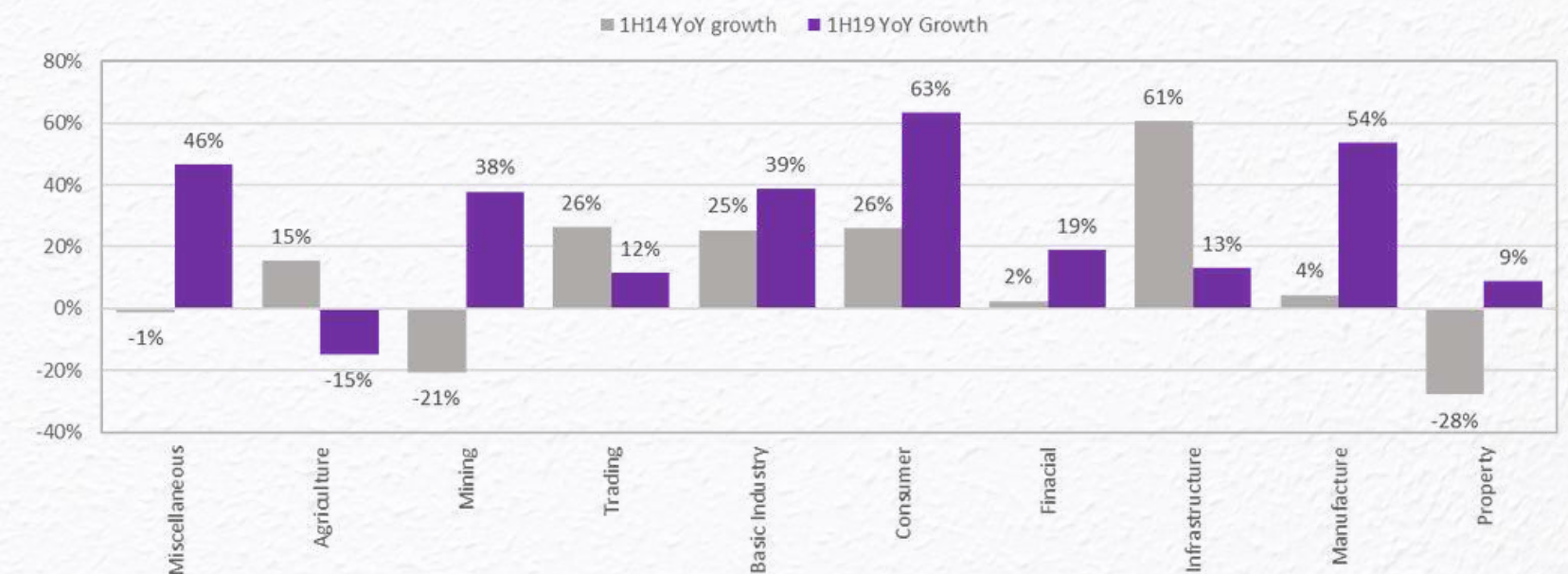
- We think that mid-low consumption will be main beneficiary for campaign fund during election period.
- Based on BI data showed that consumption ratio for middle-low societies increased 3%-3.8% during election period in 2019 (campaign and voting period). So, we think that mid low consumption will increase in 1H24 during election period align with campaign fund will inject to economy.

Higher Capex During Election Period?

JCI capex still growth supported by some sector



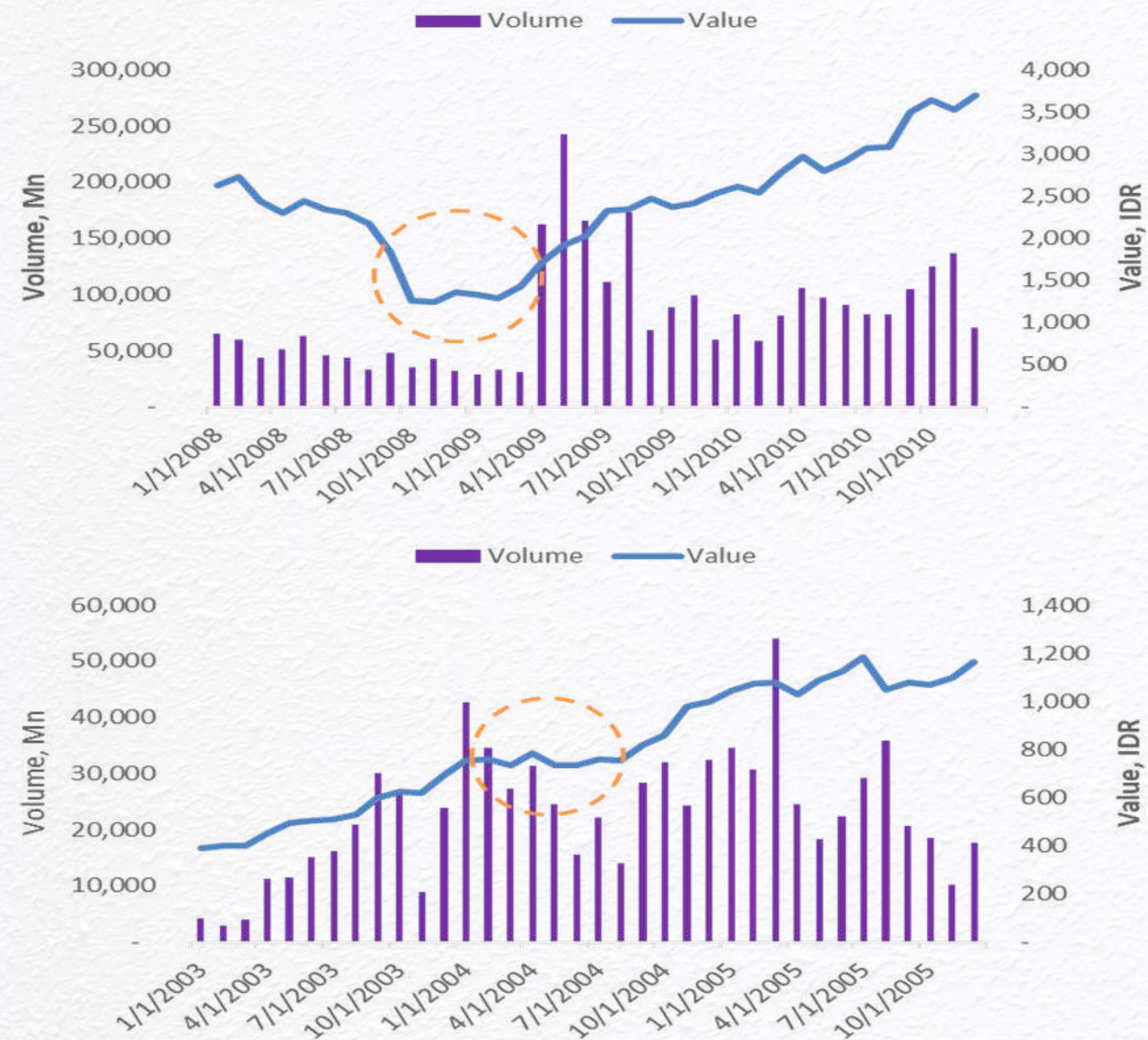
Consumer sector have a higher growth of capex in last election



- As the market enters the election period in 1H24, a slowdown in capex growth is anticipated, exacerbated by the deceleration in revenue growth.
- During past election period, JCI capex exhibiting growth in 1H14 (+17.13% YoY) and in 1H19(+20.74% YoY).
- Despite the government's commitment to completing priority projects in 1H24 potentially leading to a frontloading of infrastructure spending, we anticipate a more robust private sector capex and FDI towards the end of 2024

2024 Indonesia Election Equity market trend

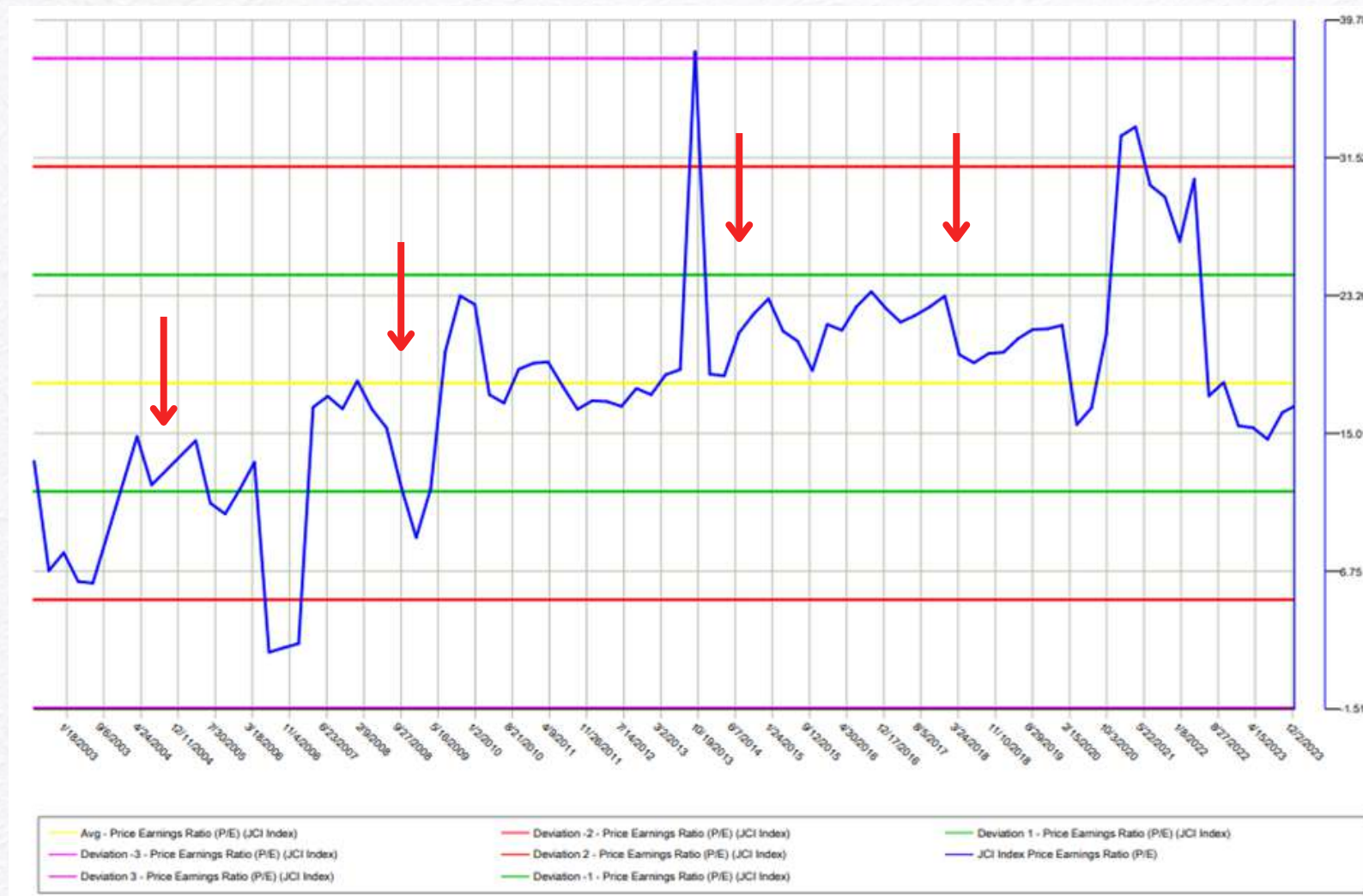
JCI tend to decline during election period



- In some of the election periods in the past, equity market tend to decline and then subsequently rose after the election period.
- We think that it's aligned with wait and see stand from investor during election especially in equity market.

2024 Indonesia Election Equity market trend

Historically, attractive valuation of JCI happened during election period



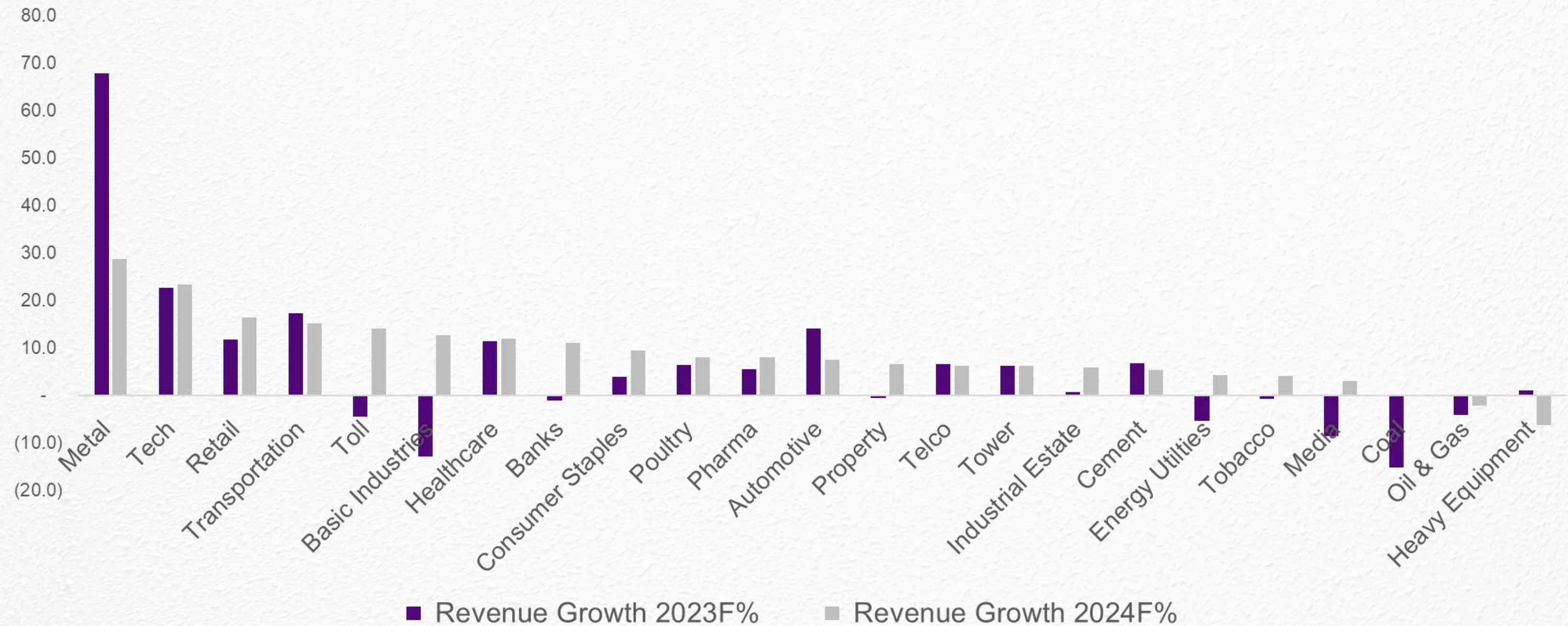
- We see that opportunities to enter JCI at an attractive valuation amid price down trend during election period tend to happen
- We think that the investors should take a position benefiting from the situation with focus on growth and defensive companies.
- We need to be cautious with equity market volatility in 1H24 during election period.

JCI Outlook 2024



Revenue Growth per Sector

Most of sector have a positive' growth



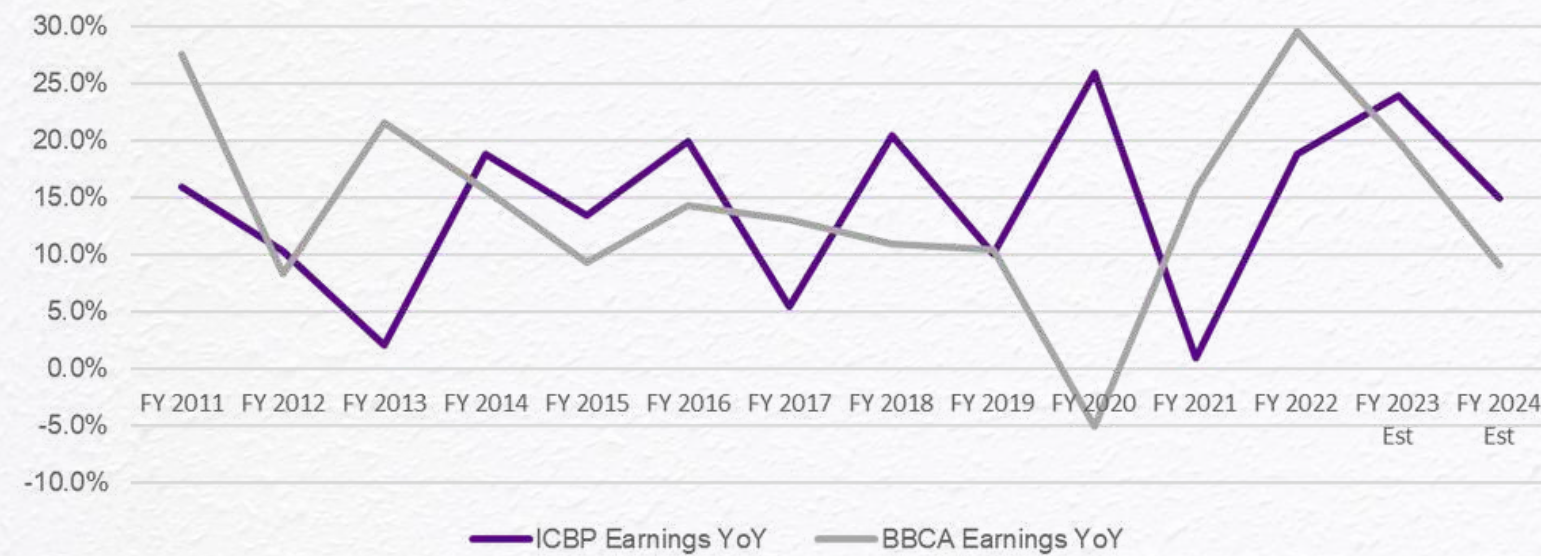
Earnings Growth per Sector

Earning still positive in some sector

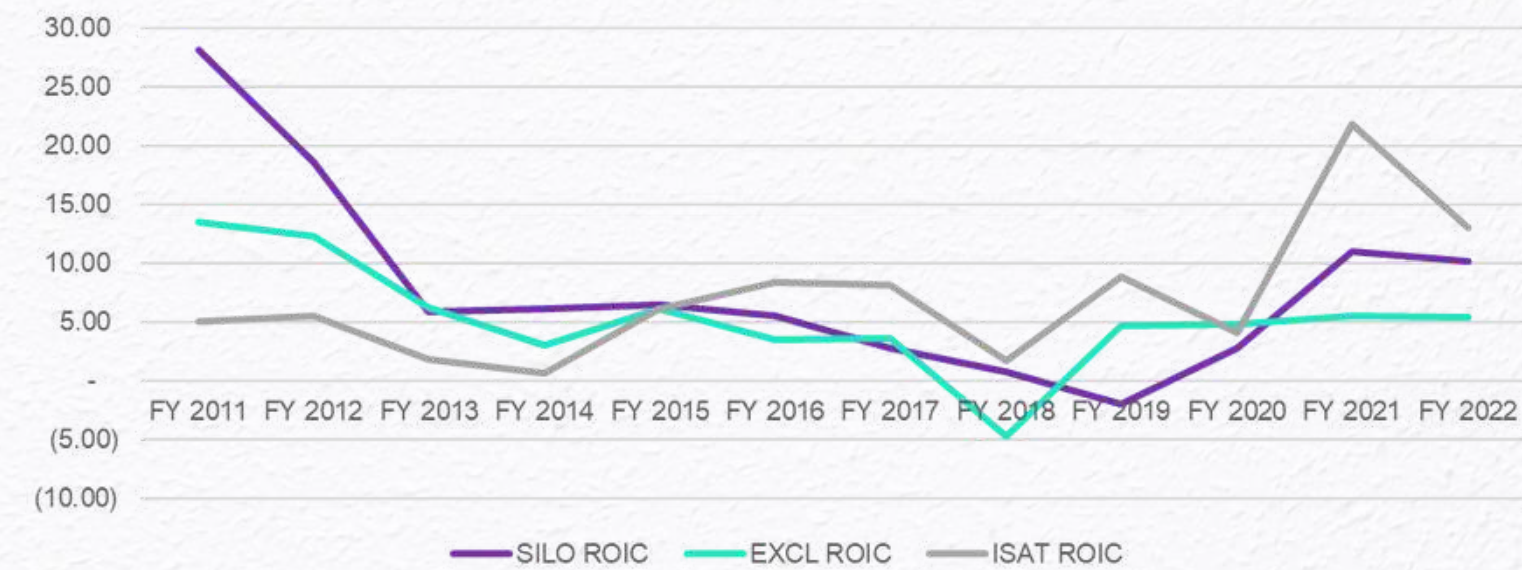


Defensive Companies

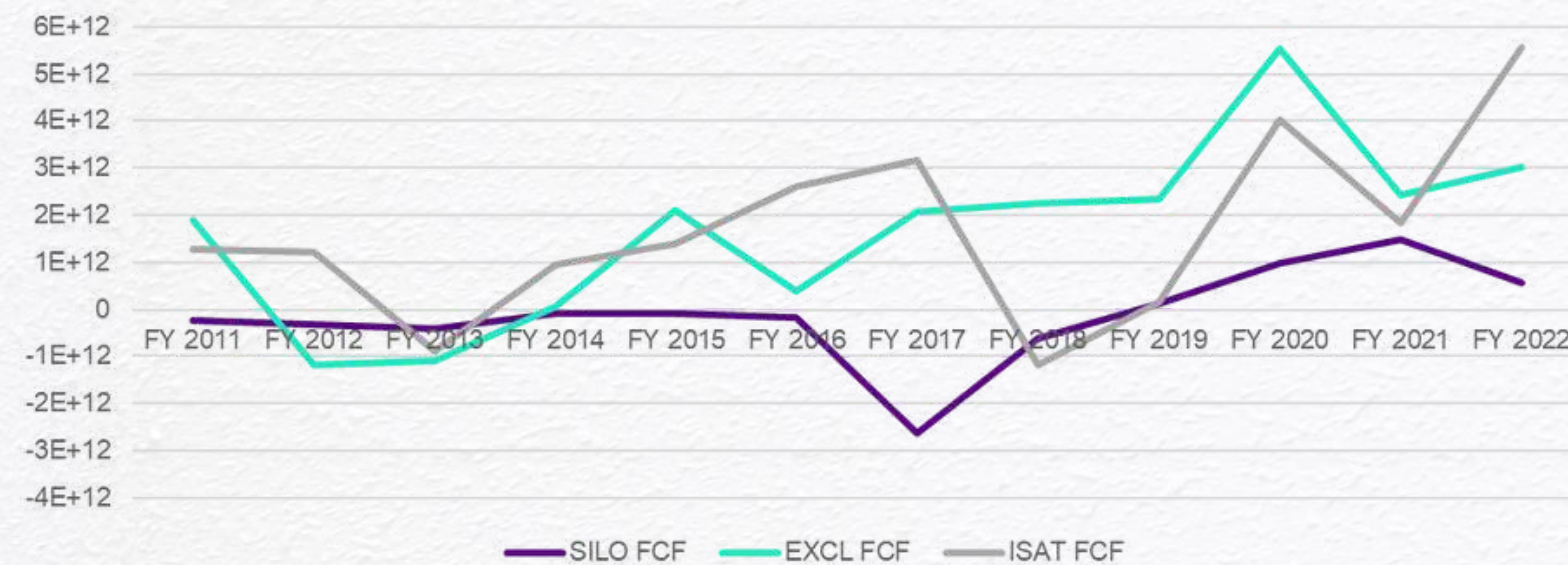
Stable earning from ICBP and BBKA



Improvement trend of ROIC



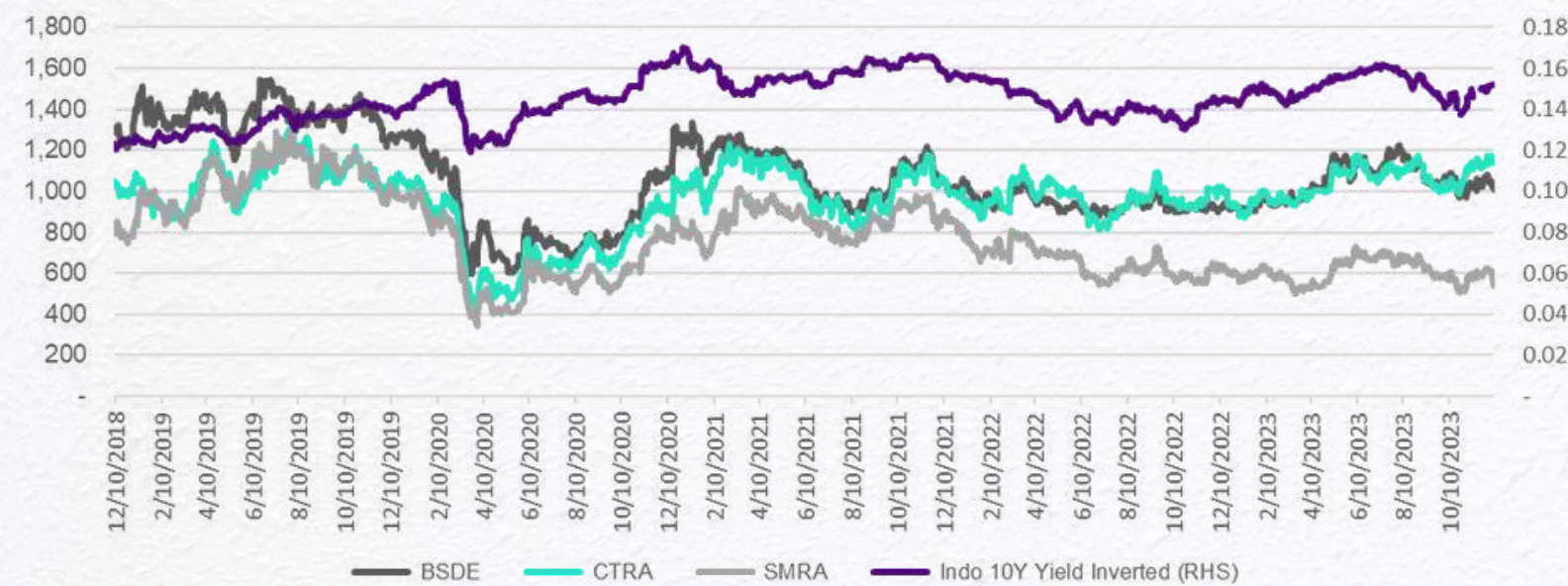
Positive FCF from telco and hospital player



- Due to our view that 2024 will be a year of global growth slowdown, and domestically, uncertainty due to elections might result in lower investment from businesses, we look for sectors and companies with relatively stable earnings growth profile
- We also emphasize the importance of ROIC and Free Cash Flow improvement trend

Lower Rates Beneficiaries

Property sector as a lower rate beneficiaries



Tower sector as a lower rate beneficiaries



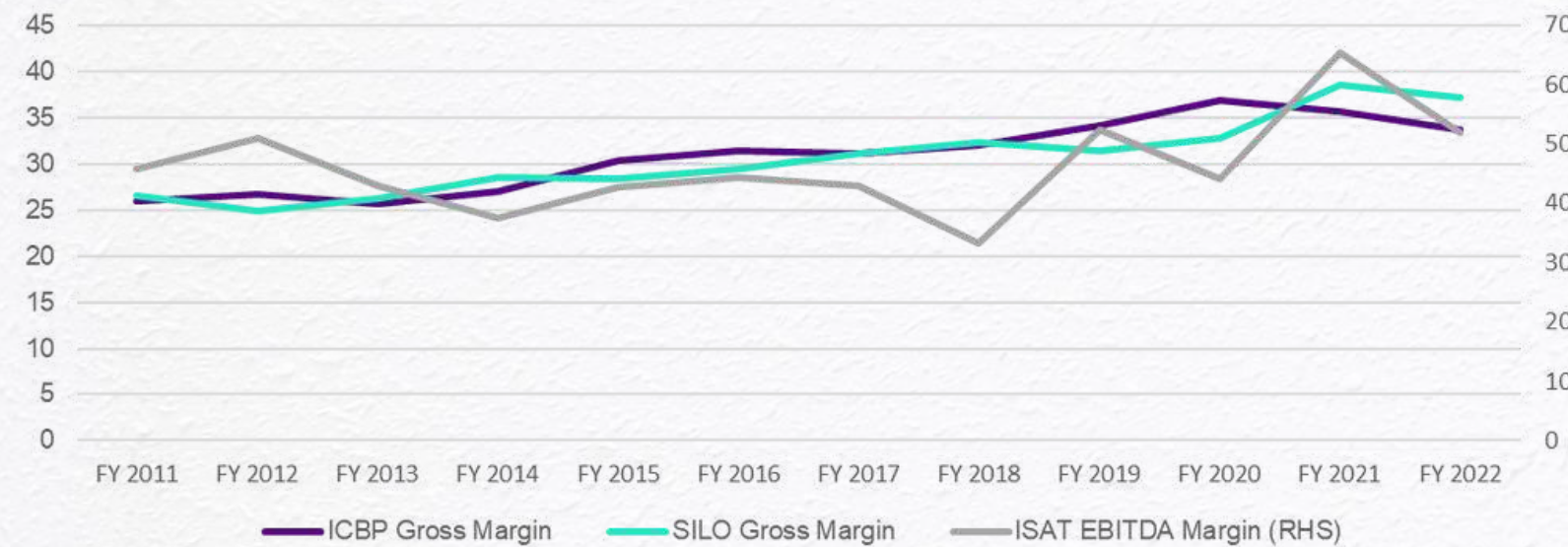
Toll road as a lower rate beneficiaries



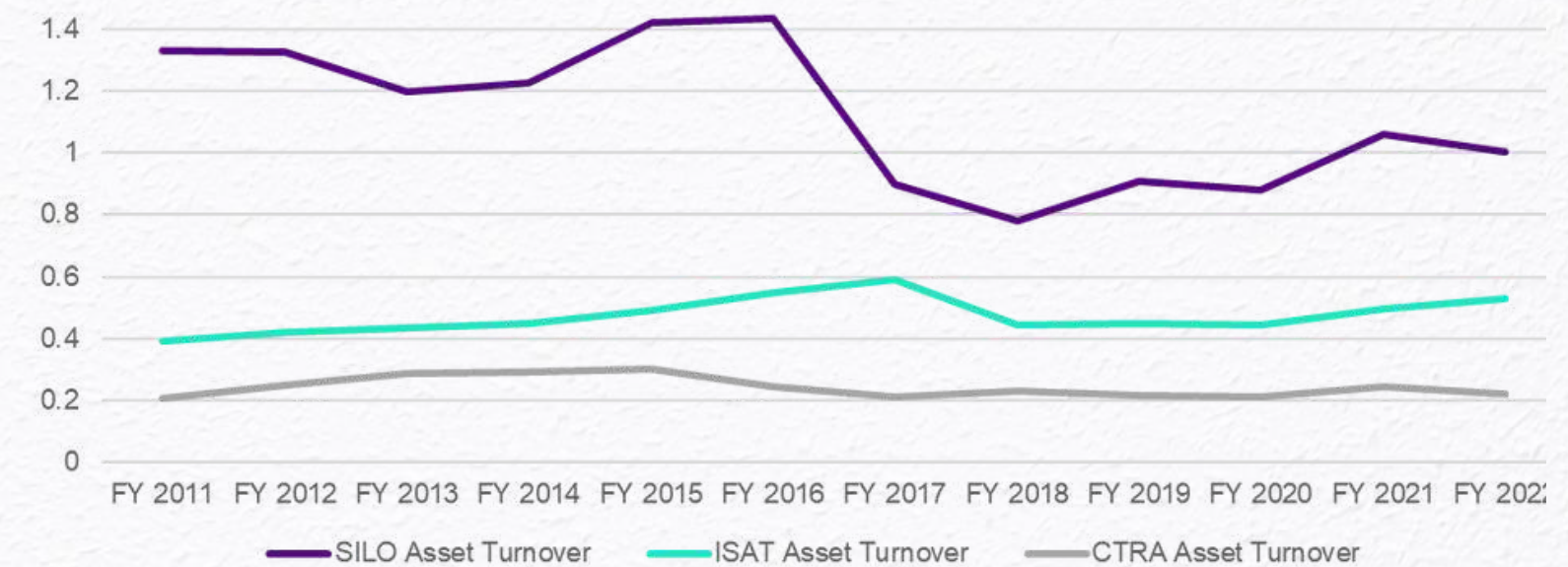
- From top down perspectives, we view that there are 3 sectors that might have some benefits from lower rates : 1) property, 2) tower, 3) toll
- They benefit from high debt in their balance sheet, perception as bond proxies, and more stable cash flow (tower and toll)
- However we still balance this top down perspective with bottom up research and will not invest uniformly in these sectors

ROE Improvement Candidates

Higher margin from ICBP, SILO, and ISAT



Higher asset turnover of hospital, telco & property companies



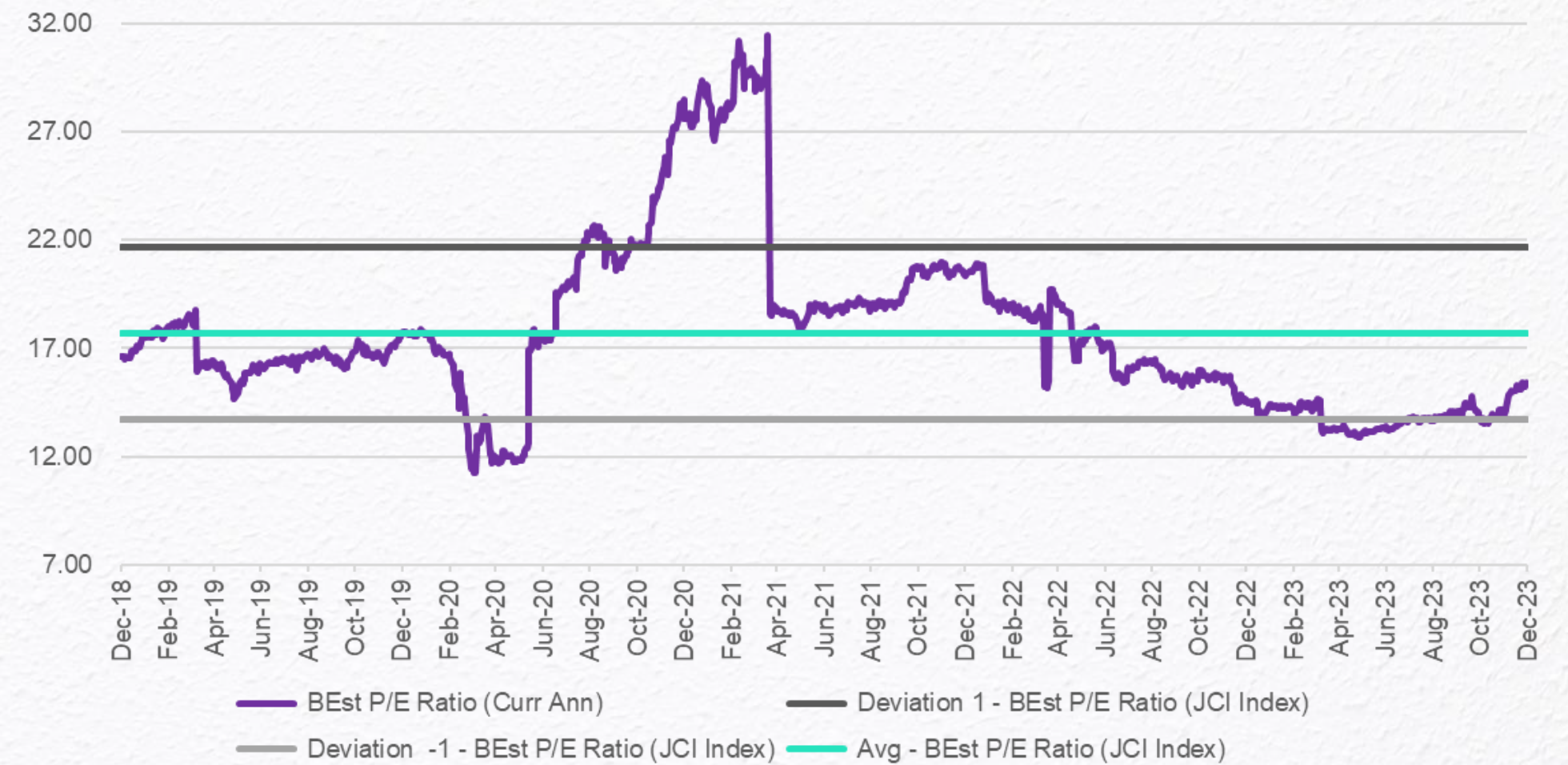
Lower interest cost from toll road and tower



- We look for companies that can improve ROE, either via 1) higher margin, 2) lower interest cost, or 3) higher asset turnover
- We emphasize the importance of structural margin improvement, structural deleveraging trend, and resilient business model in generating revenue

JCI Prediction

	2023	2024
PE Bear	15.4	14.5
PE Base	15.4	15
PE Bull	15.4	15.5
	2023	2024
EPS Growth Bear	0.006	0.01
EPS Growth Base	0.006	0.1
EPS Growth Bull	0.006	0.15
	2023	2024
EPS Bear	467	472
EPS Base	467	514
EPS Bull	467	537
JCI Bear	7200	6839
JCI Base	7200	7706
JCI Bull	7200	8324
	2024 upside	
JCI Bear		-0.05
JCI Base		0.07
JCI Bull		0.156



Sectoral Outlook

Focus on growth and defensive companies



Telecommunication Sector FMC as another source of growth (Overweight)

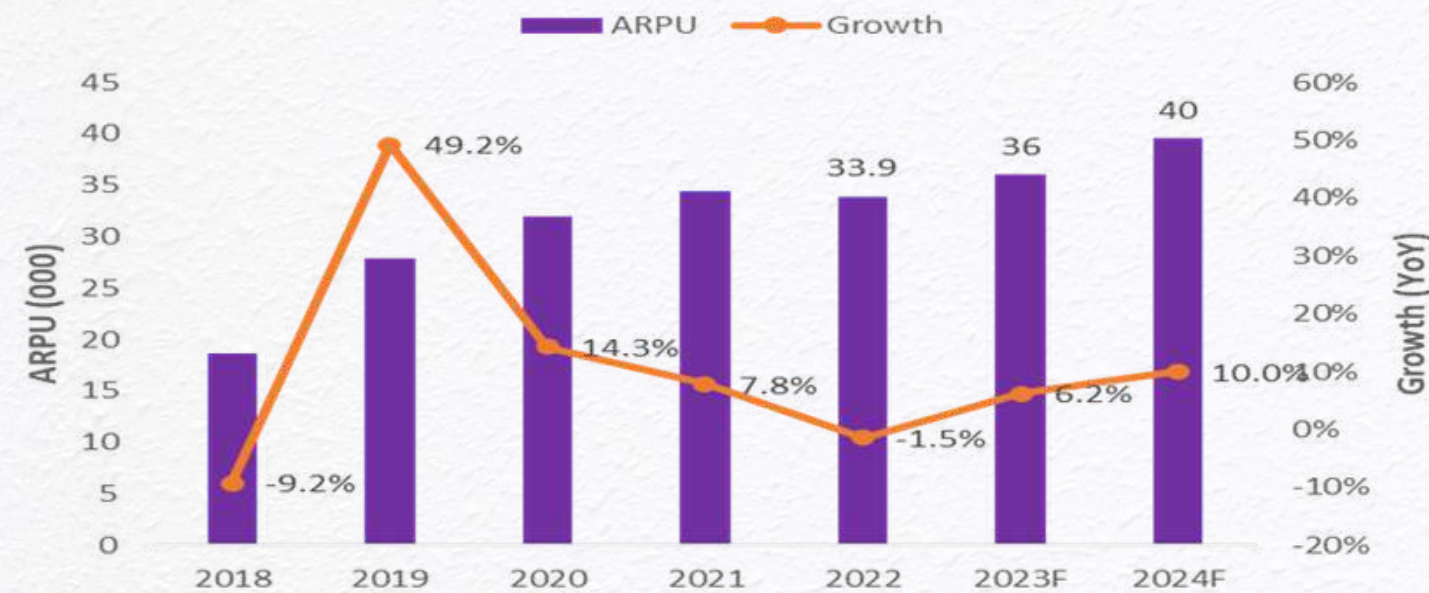
Fixed mobile convergence in every telco players



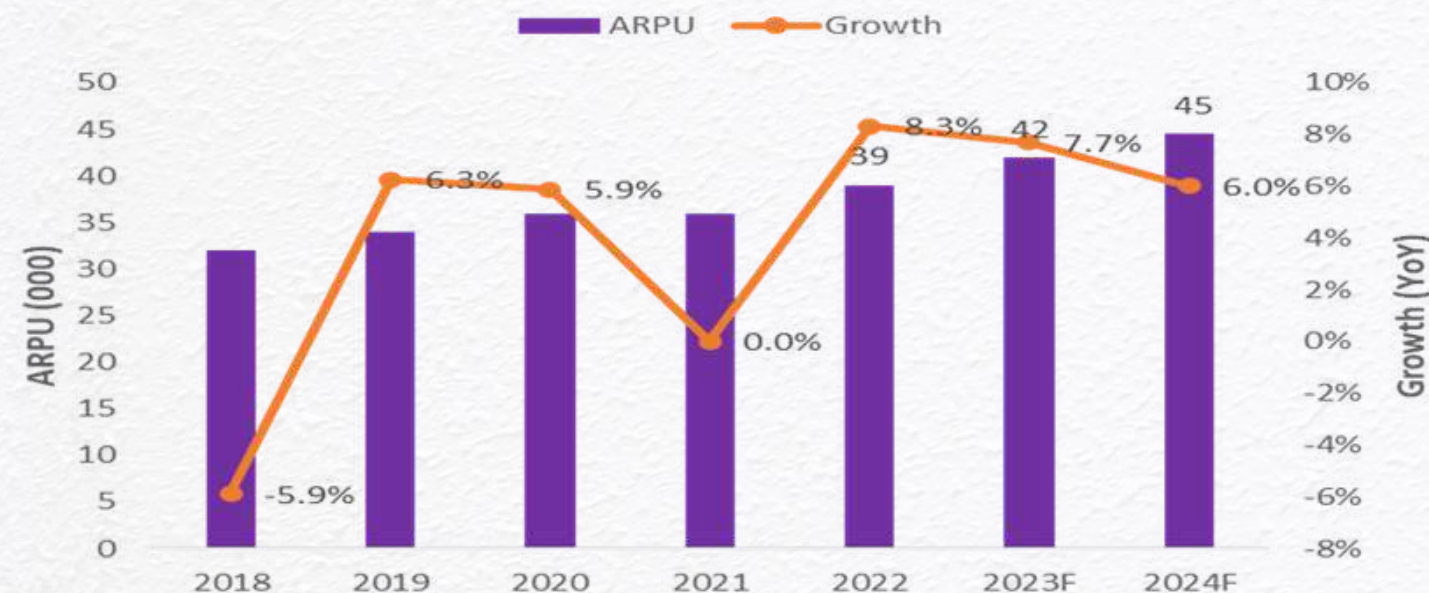
- Fixed mobile convergence (FMC) is combination of mobile and fixed internet. The main players in telco sector have done merger and acquisition with fixed broadband player to support their FMC strategies
- EXCL and TLKM have started the service with XL Satu dan Telkomsel One in 2023. We predict that ISAT will be do the same and compete with EXCL and TLKM in 2024.

Telecommunication Sector Higher ARPU (Overweight)

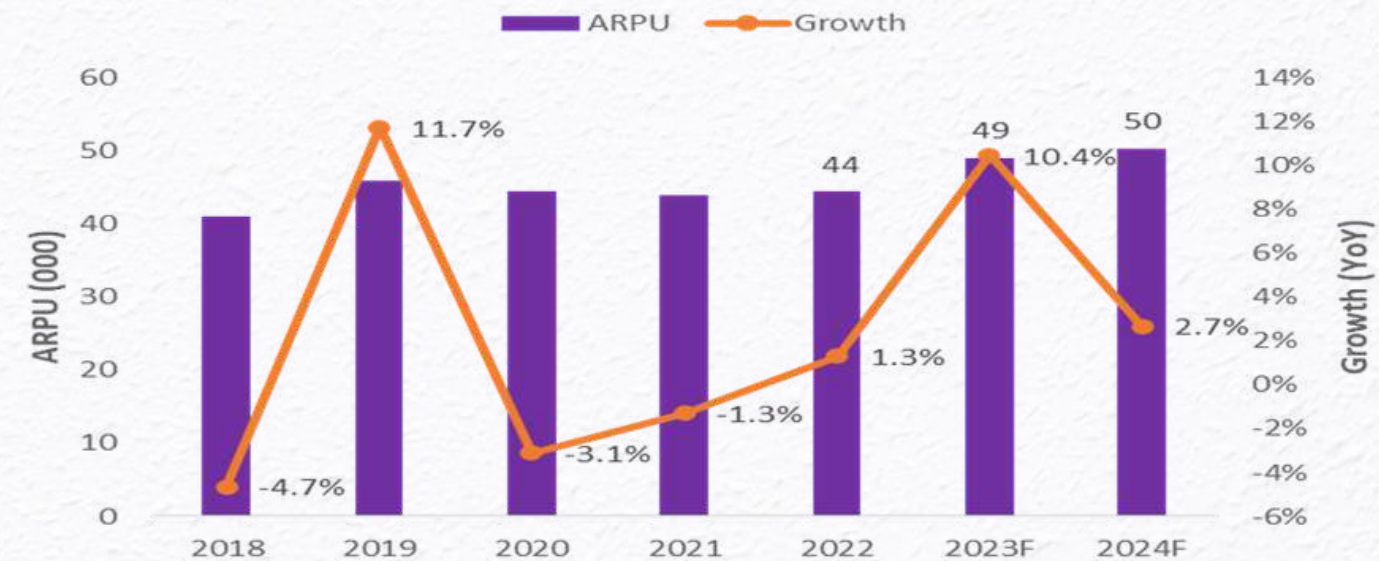
Higher ARPU for telco player in 2024F ISAT



EXCL



TLKM

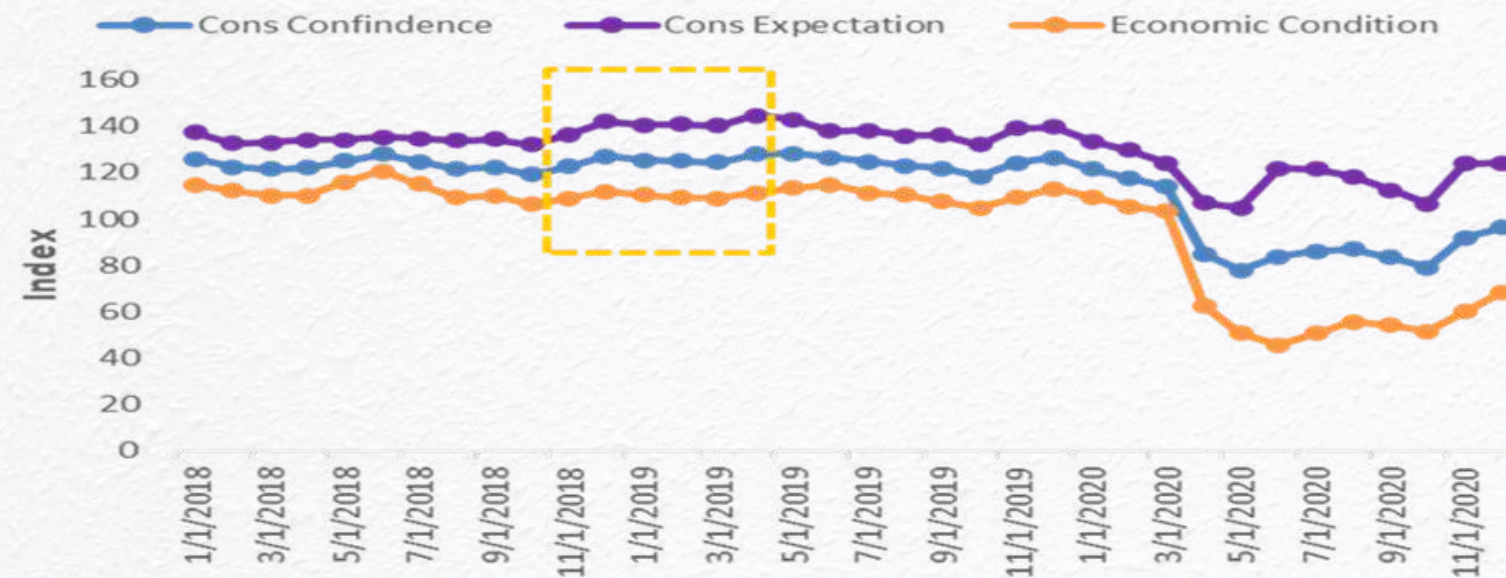


- Furthermore, we expect that telco player will adjust their ARPU to the higher level compare than previous year in 2024 align with traffic up trend year over year.
- We need cautious with the industry competition both Java and out of Java area that impact to the company margin.

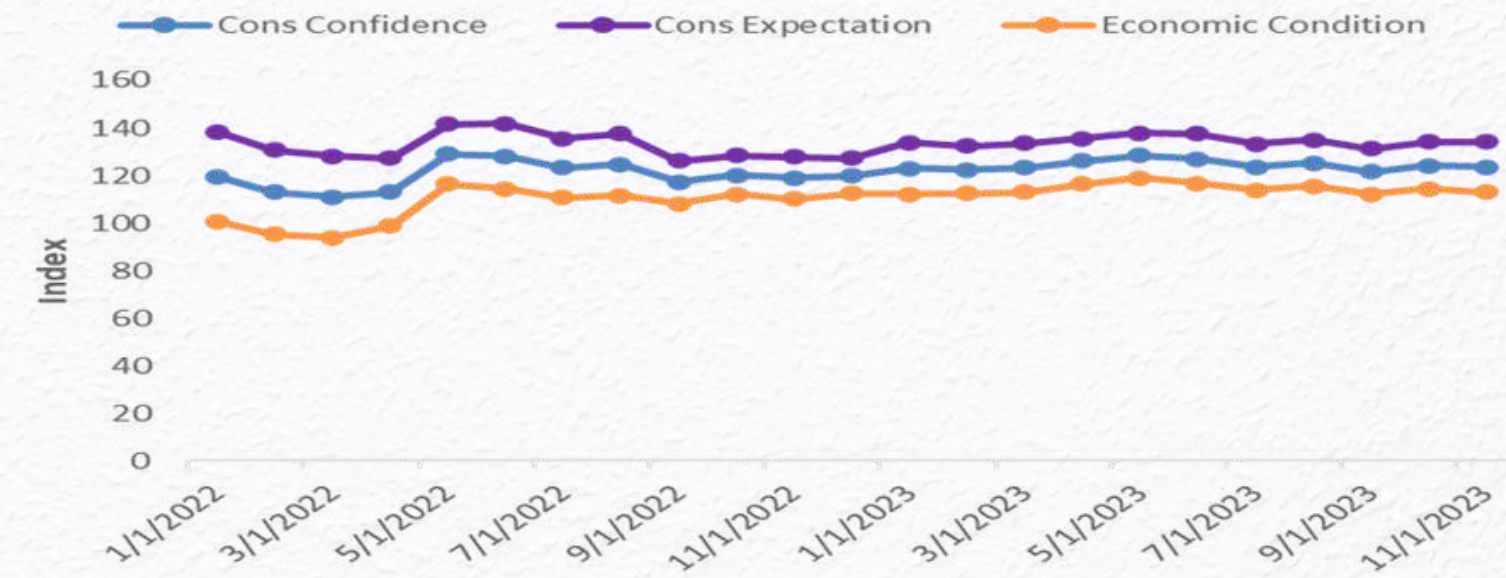
Consumer Staples

Gaining advantage from election momentum (Overweight)

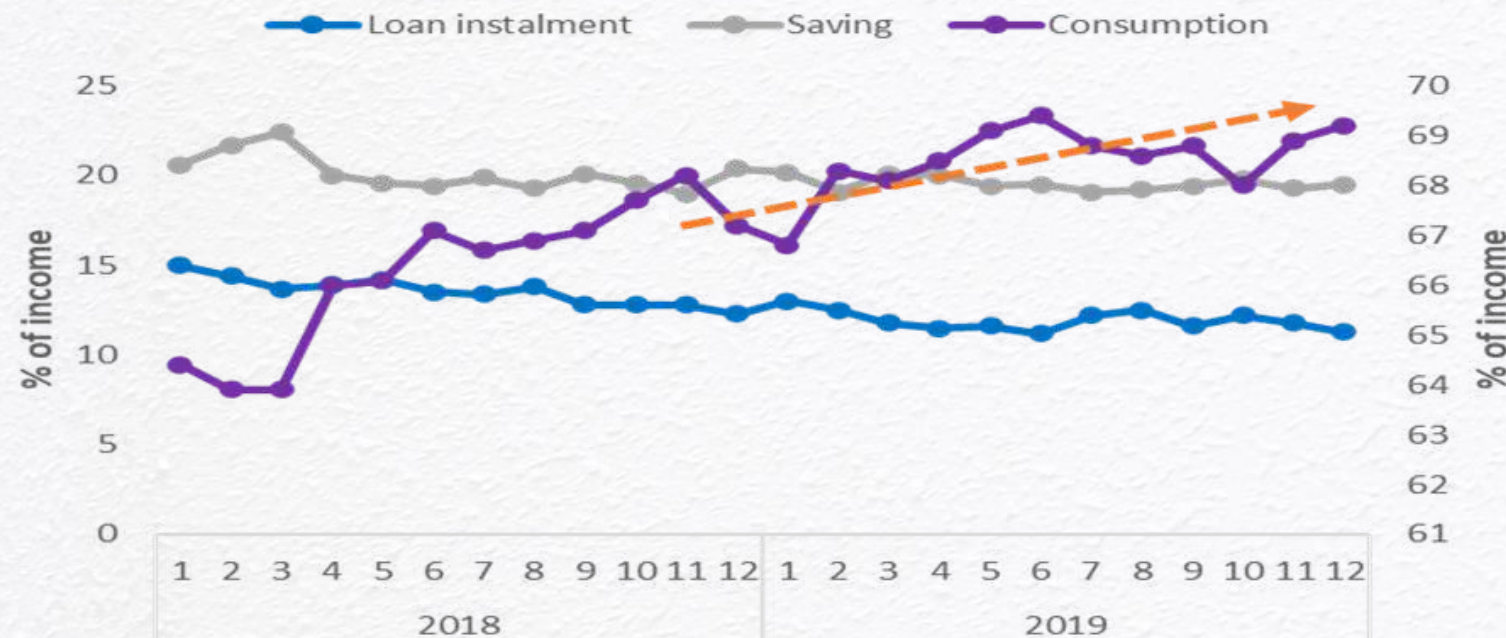
Higher purchasing power in 2019 election



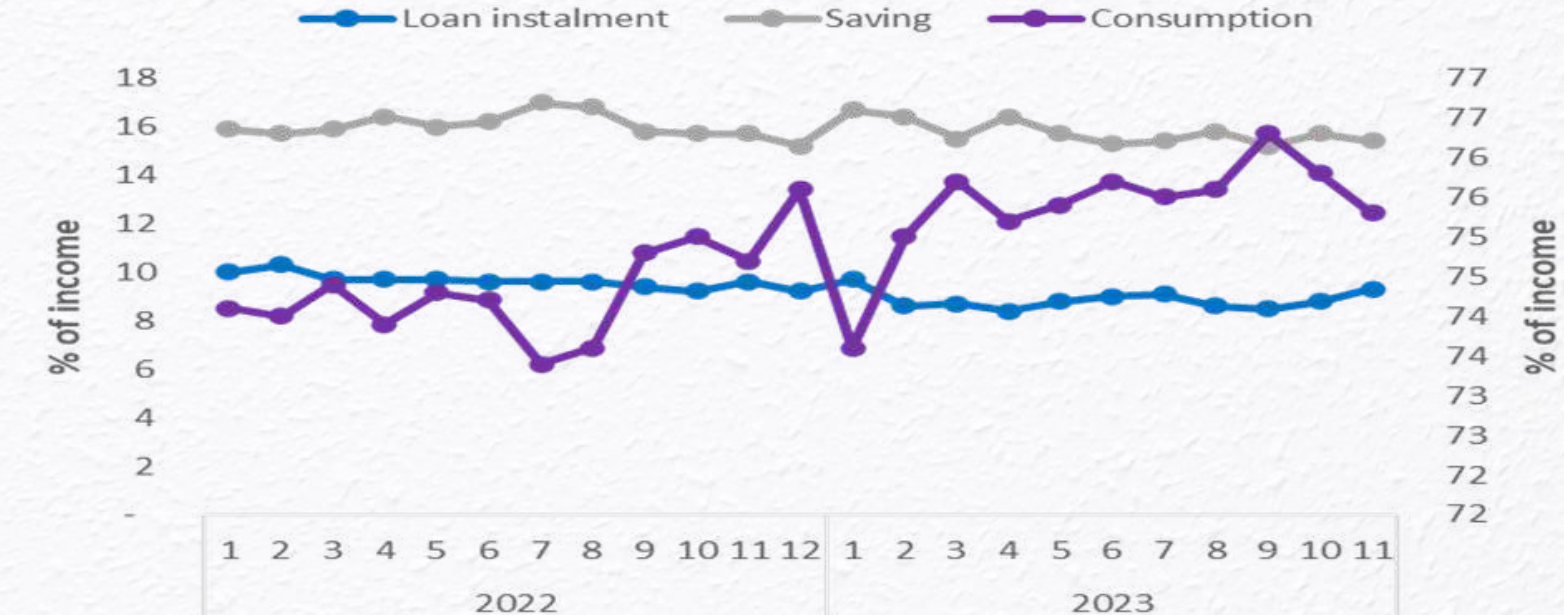
Purchasing power estimated increase in 2024 election



Propensity to consume increased in 2019 election



Propensity to consume estimated will increase in 2024 election

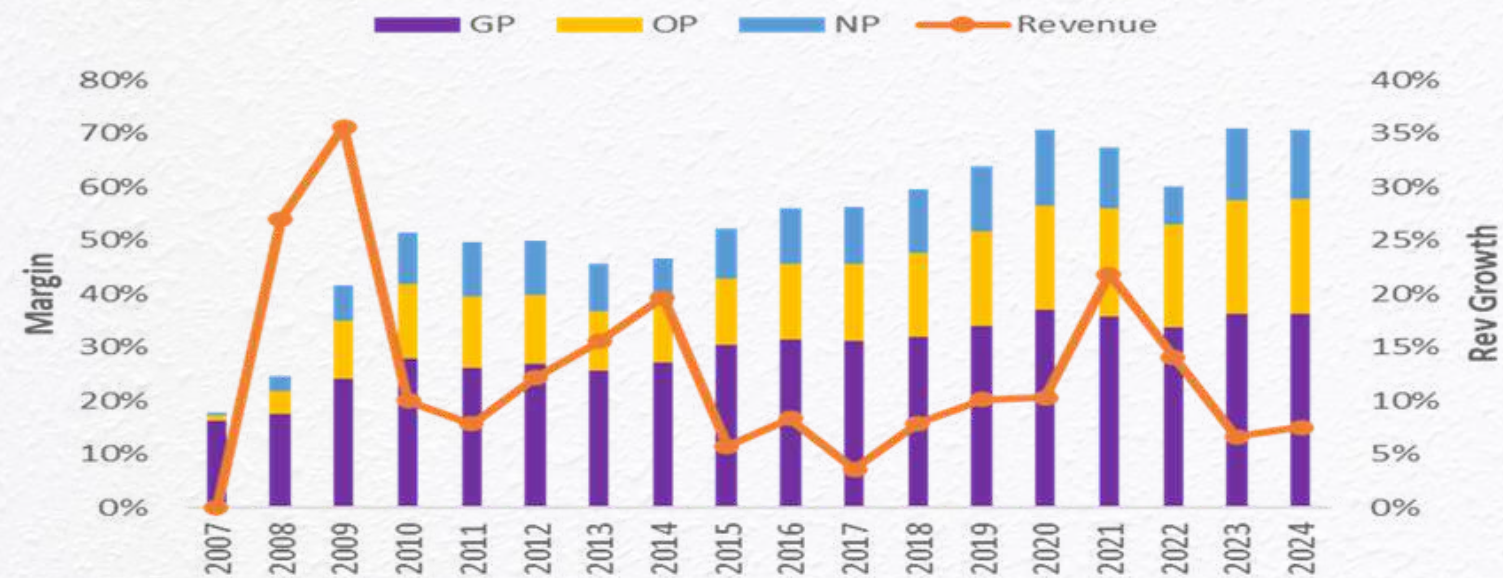


Consumer Staples

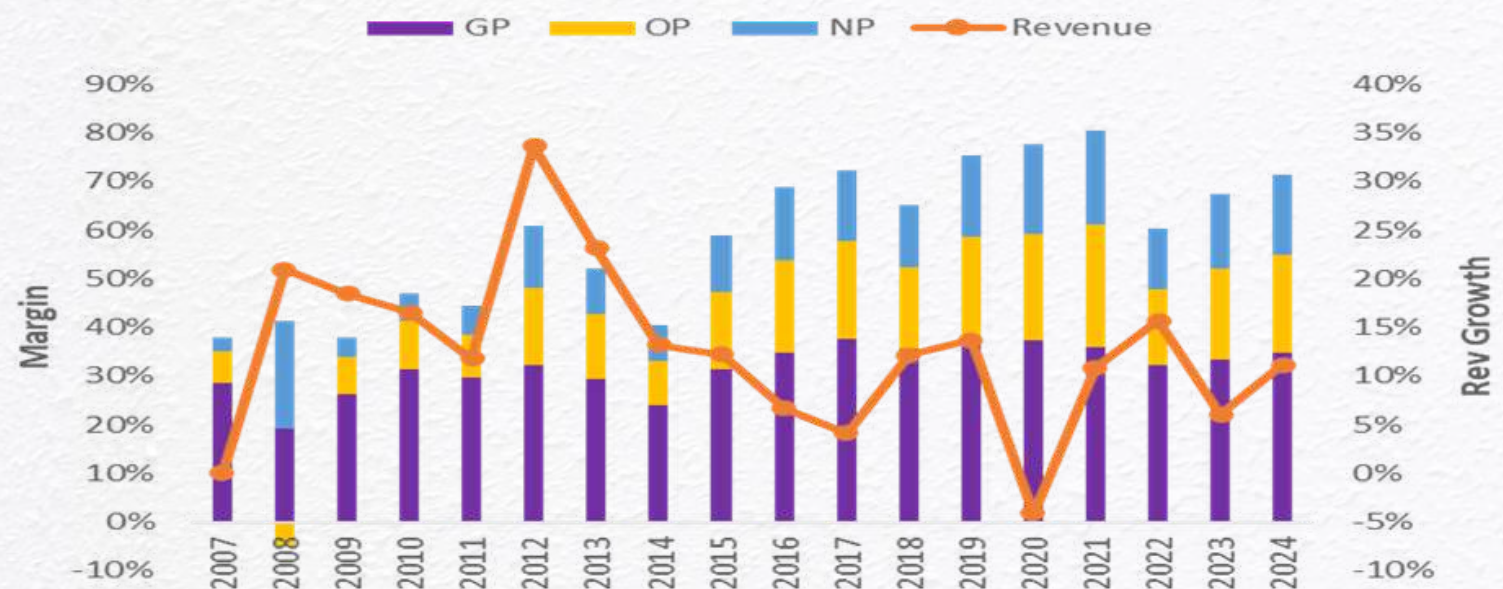
Gaining advantage from election momentum (Overweight)

Margin improvement in consumer sector

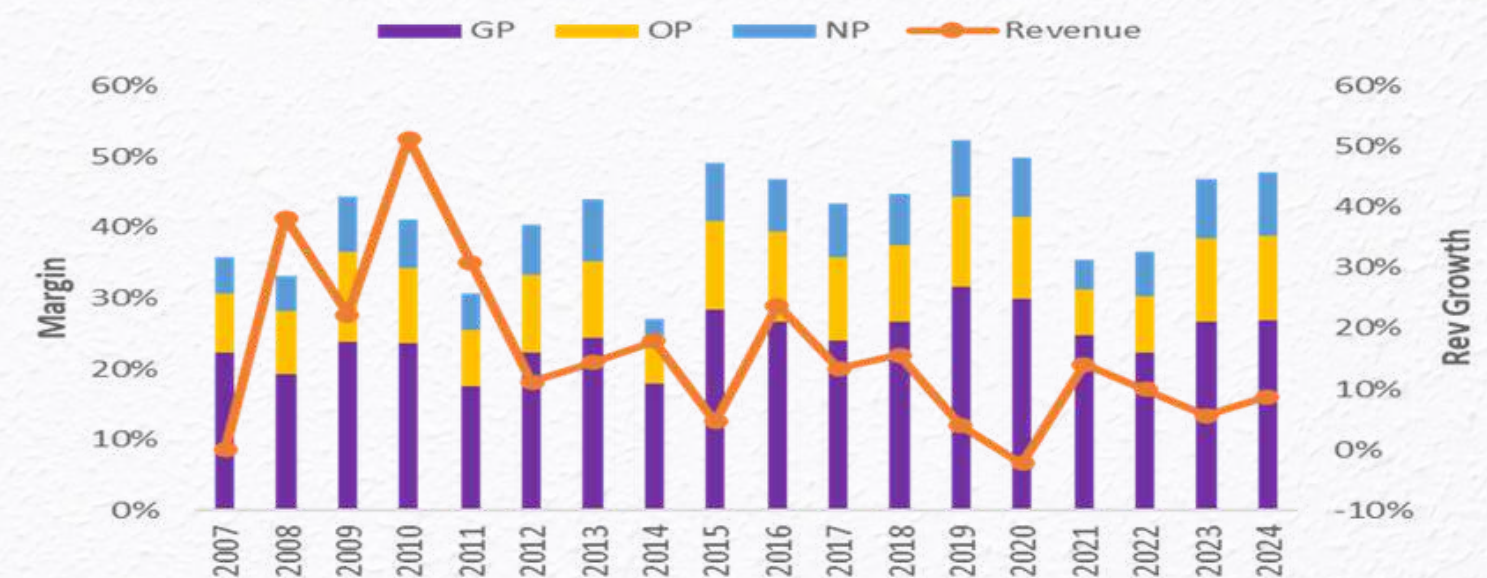
ICBP



ULTJ



MYOR



- We expect that consumer staples players will get an advantage in election year impact to their revenue growth.
- Margin improvement will happen in 2024 align with raw material cost decrease, in our view.
- But we need to be cautious with lagging impact of elnino in 2023.

Property Sector

Supported by government incentive (Overweight)

Property incentive from government in 2023 and 2024

Property Price	2021	VAT Incentive		
		2022	Nov 23 - Jun 24	Jul 24 - Dec 24
< IDR 2 Bn	100%	50%	100%	50%
IDR 2-5 Bn	50%	25%	Capped until IDR 2 Bn	

Tax	Tax rate	Note
VAT (PPN)	11%	All properties
Property transfer fee (BPHTB)	5%	All properties
Sales and purchase certificate (AJB)	1%	All properties
Luxury tax (PPnBM)	20%	Landed house and apartment with price > IDR 30 Bn
Super luxury tax (PPh 22)	1%	Landed house with price > IDR 30 Bn and building area > 150 sqm Apartment with price > IDR 30 Bn and building area > 150 sqm

Presales from VAT Incentive	2021 (IDR Bn)	% of Total Presales	2022 (IDR Bn)	% of Total Presales
BSDE	785	10%	307	3%
CTRA	2,000	27%	1,323	16%
PWON	1,205	84%	810	54%
SMRA	750	14%	100	2%

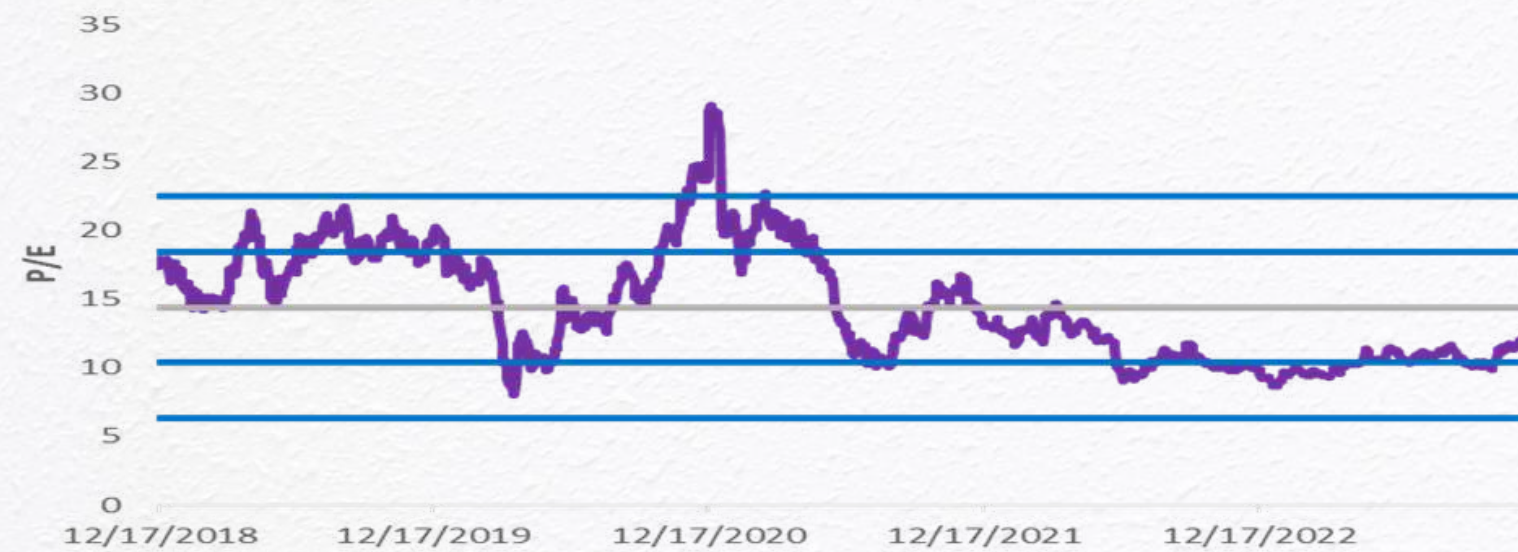
- Indonesia government gave incentive to property sector consisting of VAT discounts and administration fee IDR 4 million.
- We think that the incentive will boost property presales in 2024 and CTRA will be main beneficiary as the incentive align with their product range in our view.

Property Sector

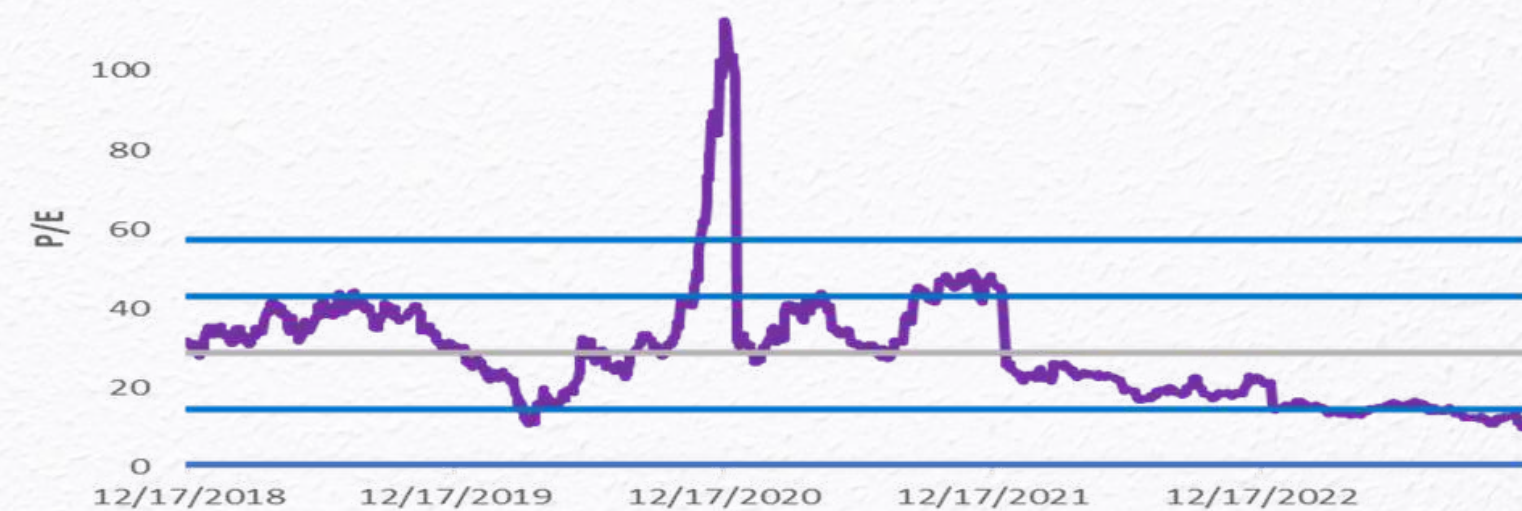
Supported by government incentive (Overweight)

Property sector have an attractive valuation

CTRA



SMRA



BSDE



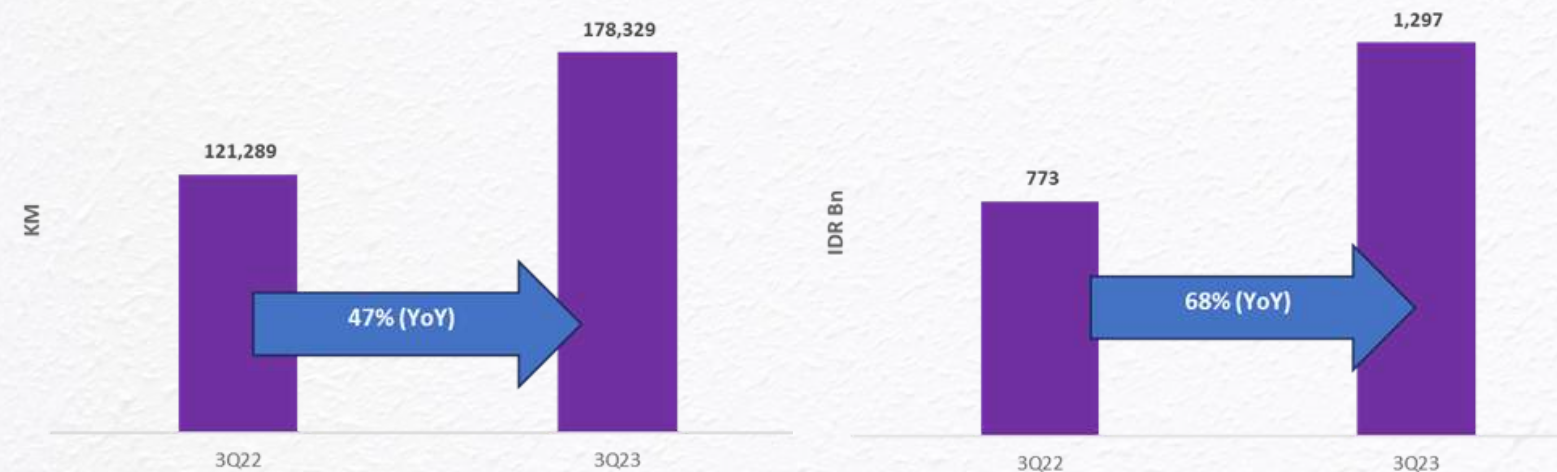
PWON



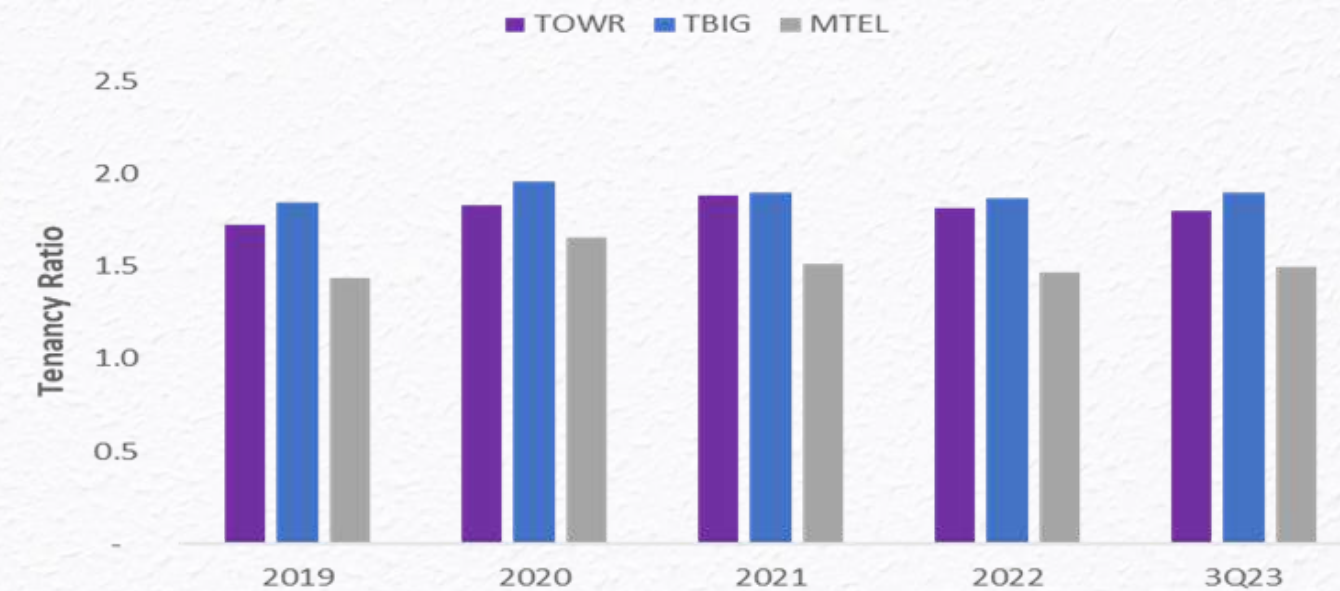
Tower Sector

Fiberization as a new driver amid telco consolidation (Overweight)

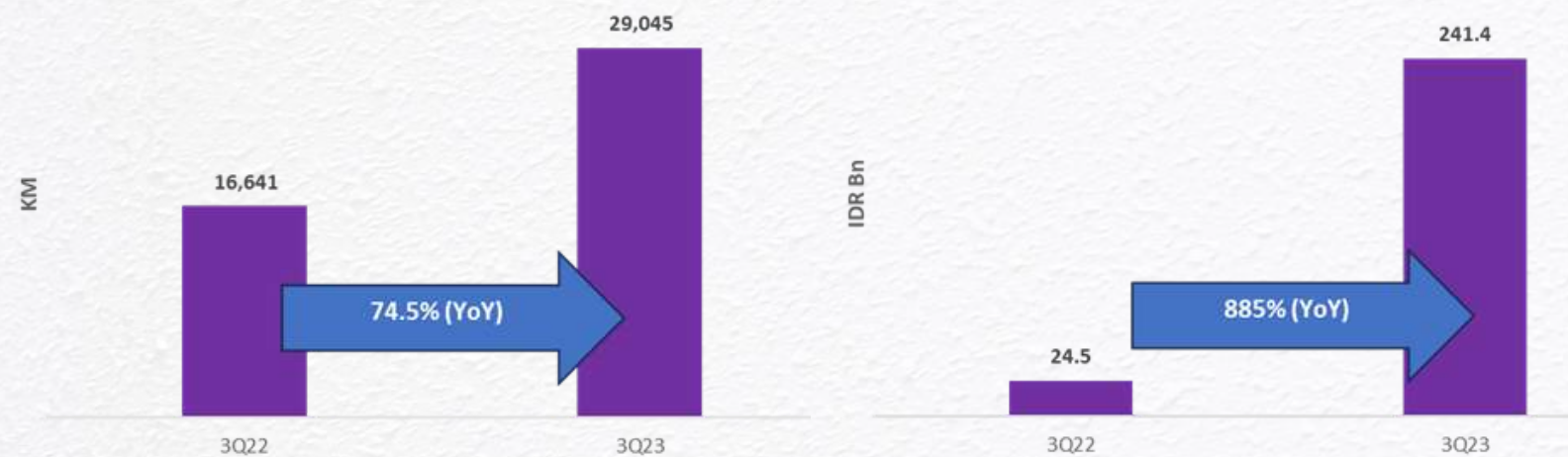
TOWR continue increase fiber optic



Higher tenancy ratio for TBIG and TOWR



TBIG – Fiber optic (Km) and fiber optic revenue (IDR Bn)

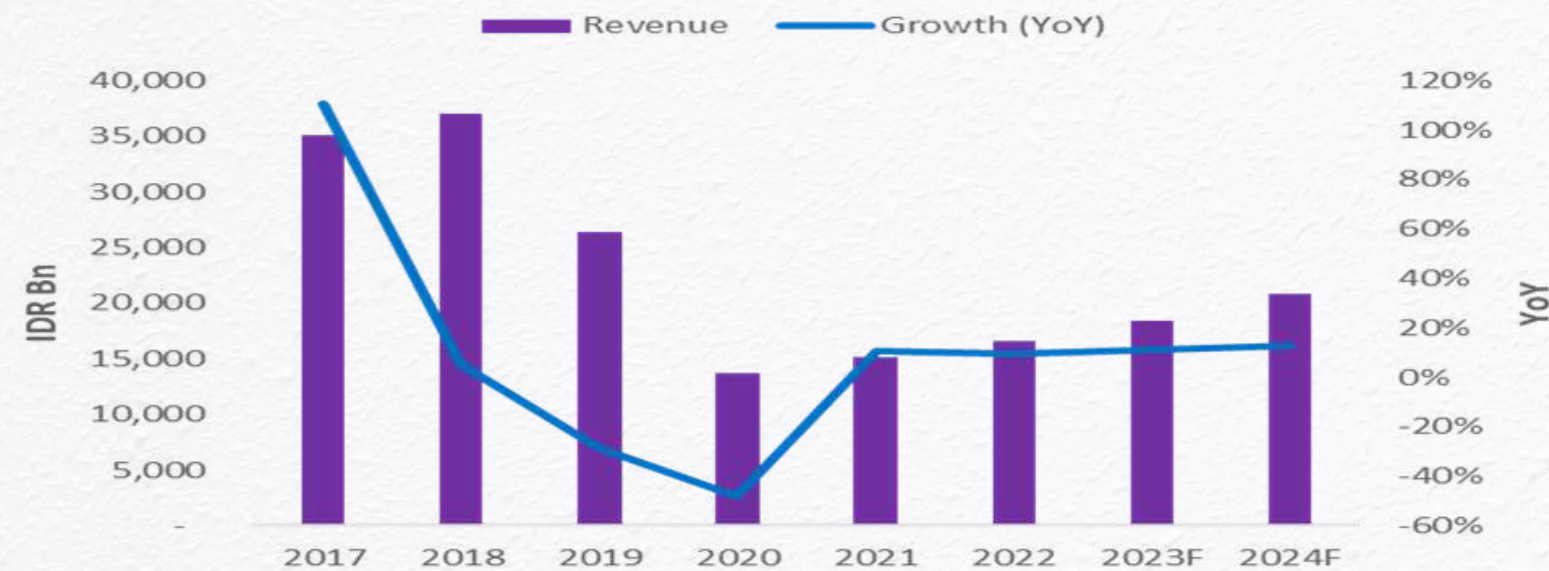


- We believe that fiber optic will be the new source of growth in tower sector align with FMC trend in telco sector.
- BI rate cut in 2024 will make cost of fund decline including in tower sector as it is a capital intensive' sector.

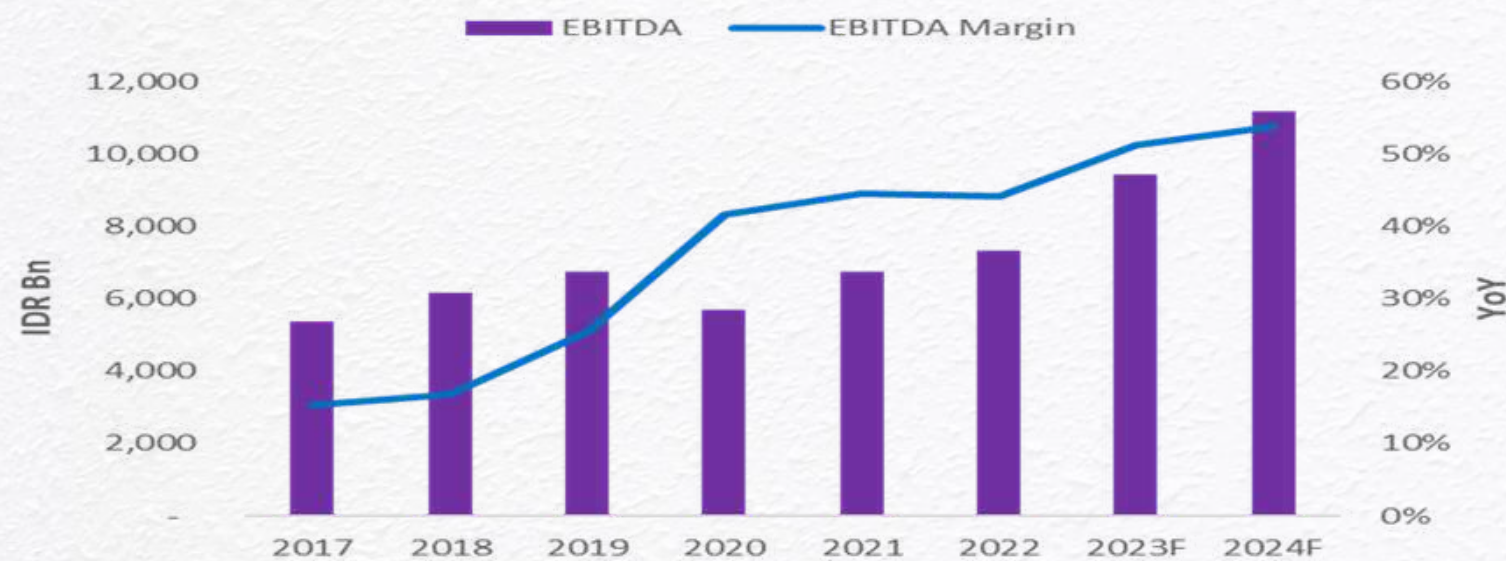
Toll Road

Tarif adjustment and normal mobility (Overweight)

Revenue improvement from JSMR



Margin improvement from JSMR



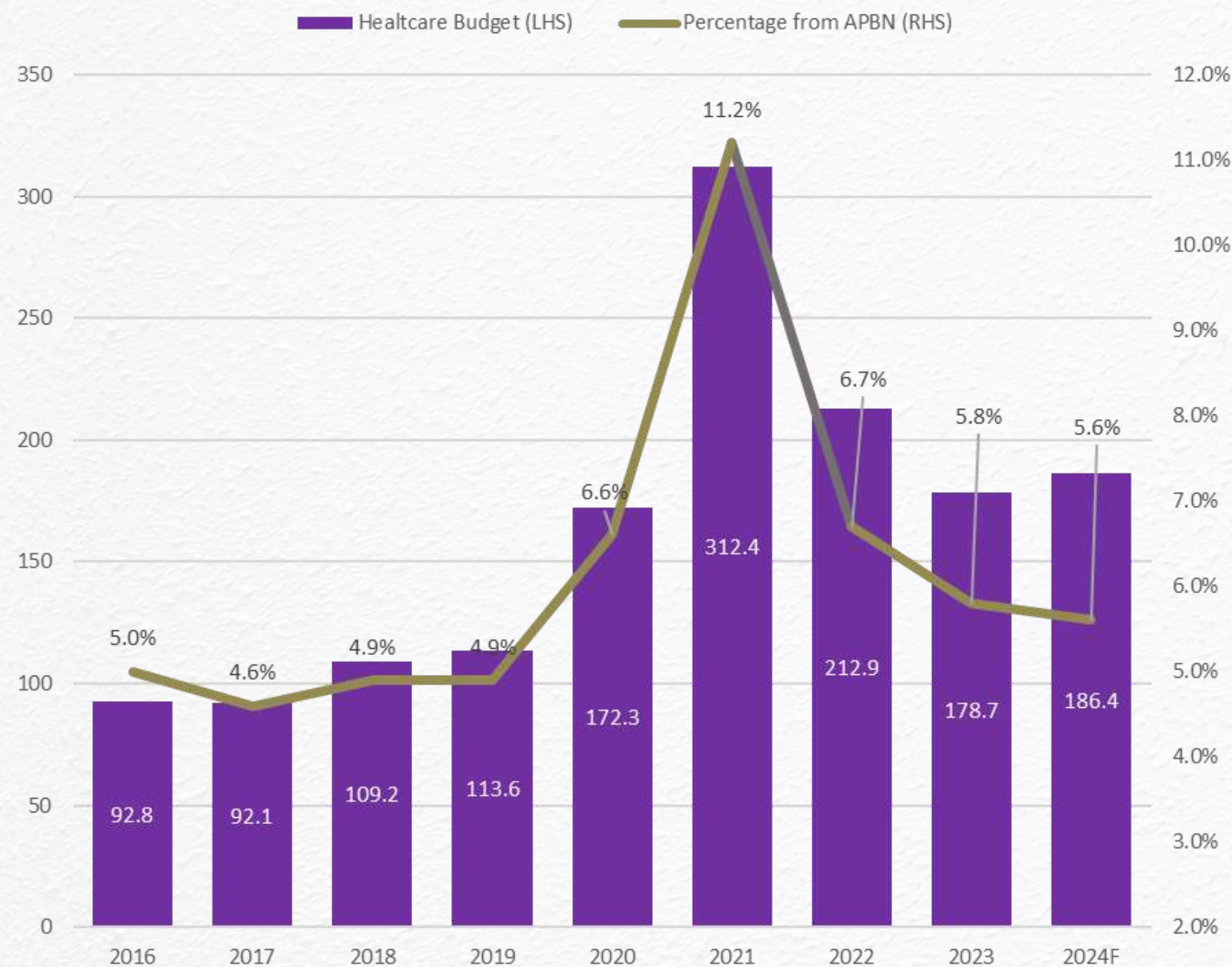
Price adjustment in 2023

Toll Road	Date	Adj Price
Jagorawi	Aug-23	5.70%
Ir. Sedyatmo	Aug-23	4.90%
Pandaan-Malang	Jan-23	2.90%
Semarang ABC	Jan-23	4.40%
Bogor Outer Ring Road	Mar-23	7.10%
Ngawi-Kertosono	Aug-23	8.10%
Gempol-Pasuruan	Sep-23	16.70%
Balikpapan-Samarinda	Apr-23	16.70%
Cikampek-Padalarang	Jun-23	6.30%
Padalarang-Cileunyi	Jun-23	5.80%
Batang-Semarang	Oct-23	29.60%
Surabaya-Gempol	Sep-23	14.70%
Belawan-Tanjung Morawa	Sep-23	6.60%
Solo-Ngawi	Sep-23	24.80%
Palimanan-Kanci	Jul-23	11.90%
Kunciran-Serpong	Mar-23	4.70%

- Toll road companies especially JSMR has posted revenue improvement aligned with price adjustment.
- In 2024F, we expect price adjustment and new toll road will be growth driver amid normal mobility in Indonesia.

Healthcare – Continue To Be Government’s Focus Defensive sector with attractive valuation (Overweight)

Healthcare budget will increase in 2024F






- Indonesia’s government is strategizing a comprehensive health budget allotment of IDR186.4 tr in 2024.
- This budget allocation will be used to finance six pillars of health transformation and disbursed among various pertinent agencies and institutions.
- The predominant budget of the IDR90 tr is designated for the initial facet of health evolution, specifically the transformation of primary services.
- The primary focus of this undertaking is to ensure equitable access to health services across 12 Puskesmas situated throughout all regions of Indonesia.

Healthcare – Maintaining Growth Trajectory

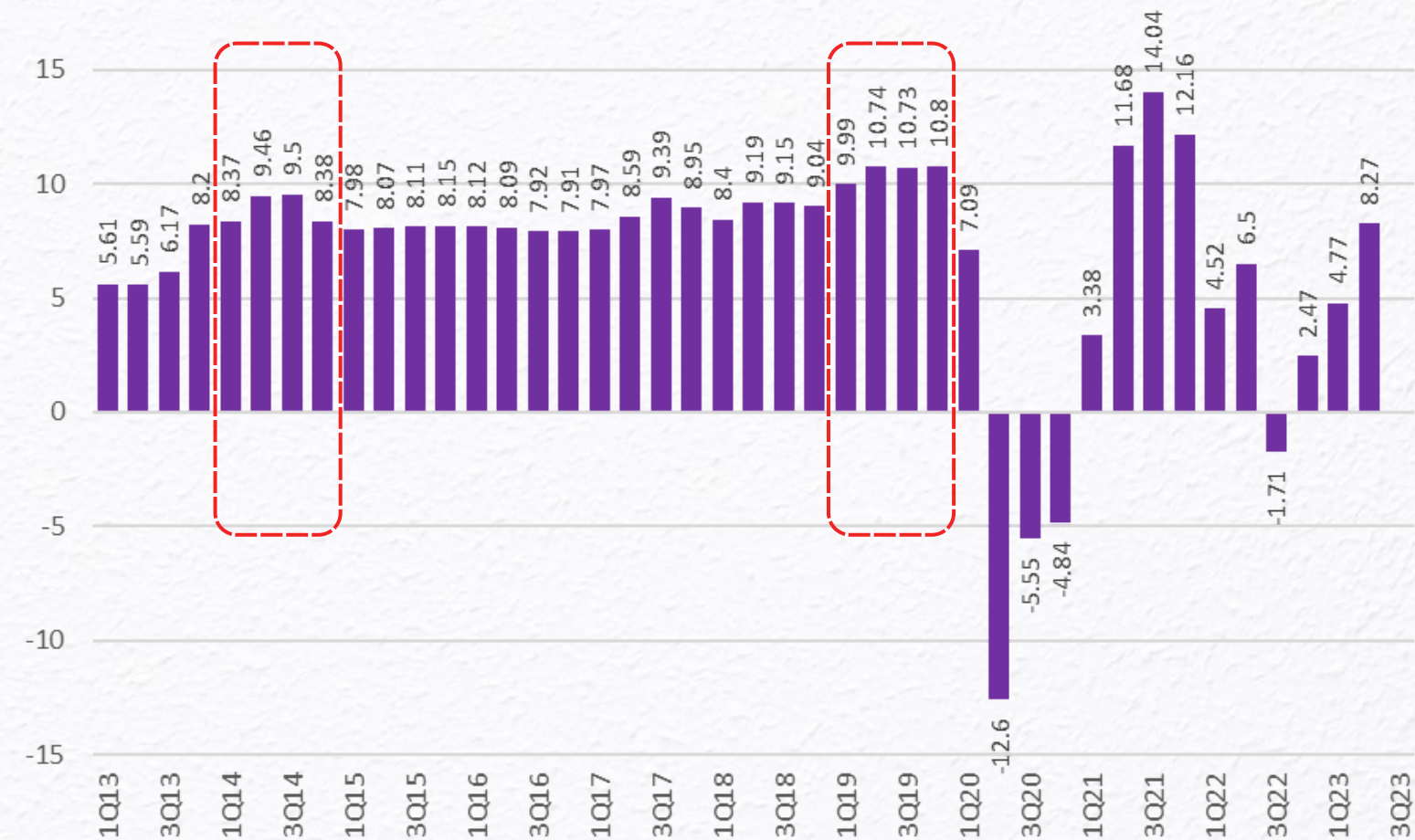
Defensive sector with attractive valuation (Overweight)

2024 presidency candidates healthcare vision

 <p>Anies Baswedan & Muhaimin Iskandar</p>	 <p>Prabowo Subianto & Gibran Rakabuming</p>	 <p>Ganjar Pranowo & Mahfud MD</p>
<h4>Healthcare policy</h4>		
<ul style="list-style-type: none"> • Focus on Promotive and Preventive Healthcare • Incorporation of Mental Health Services • Improvement of Infrastructure in Undeveloped Regions • Establishment of Class A Health Centers and Hospitals • Swift Elimination of TBC & Malaria • Initiative for Accessible Medications • Advocacy for Mental Health Awareness 	<ul style="list-style-type: none"> • Complimentary Health Screenings for the Productive Age Bracket (17-55) • Elimination of Tuberculosis (TBC) • Dispersion of Doctors to Cities Outside the Primary Tier • Enhancement of BPJS Health • Prevention of Both Communicable and Non-Communicable Ailments 	<ul style="list-style-type: none"> • One Village, One Puskesmas, One Doctor Initiative • Acceleration of Telehealth Services • Mobile Consultation (KOLING) • Utilizing NIK to Improve BPJS Services • Enhancing Access to Healthcare • Strengthening Mental Health Services • Efficient Patient Service Optimization

- In our view, the next government will most likely maintain healthcare budget allocation at 5-6% of APBN to support candidate vision and implementation of Omnibus law.

Healthcare output grew in past election period

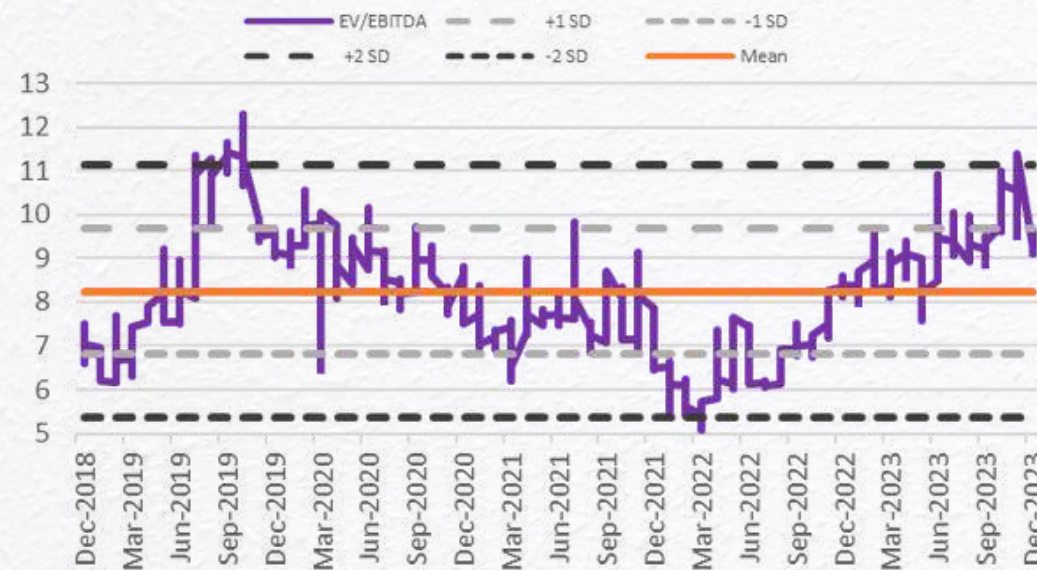


- During past election periods, healthcare sector exhibited increased growth in overall output, averaging 9.8% compare to normal period growth rate of 6.4%.

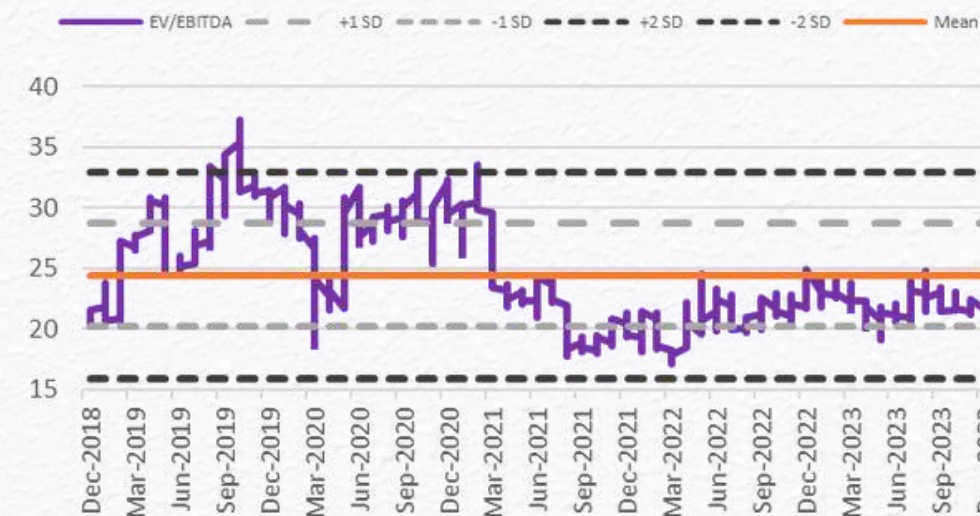
Healthcare Sector EV/EBITDA

Defensive sector with attractive valuation (Overweight)

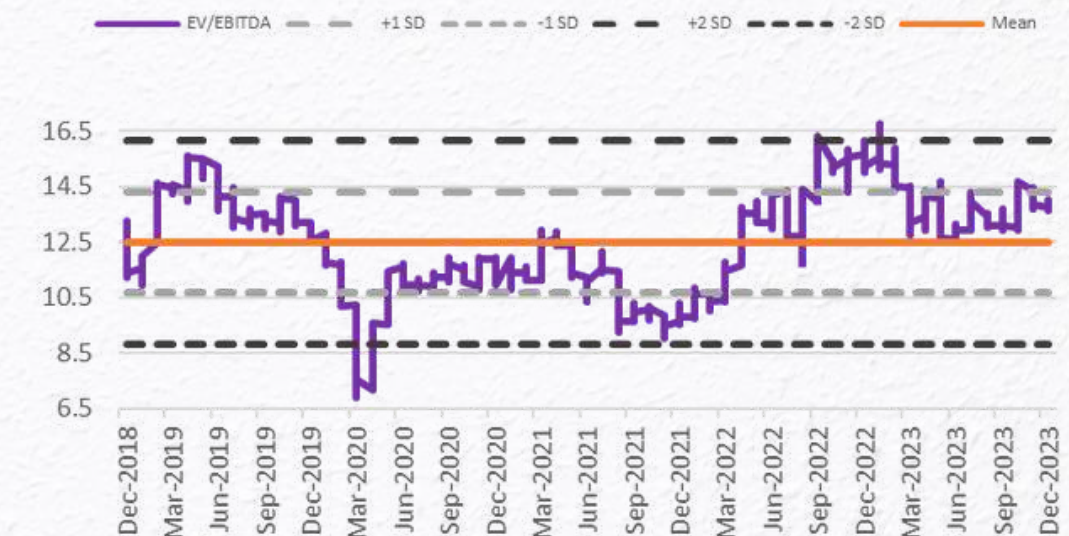
SILO



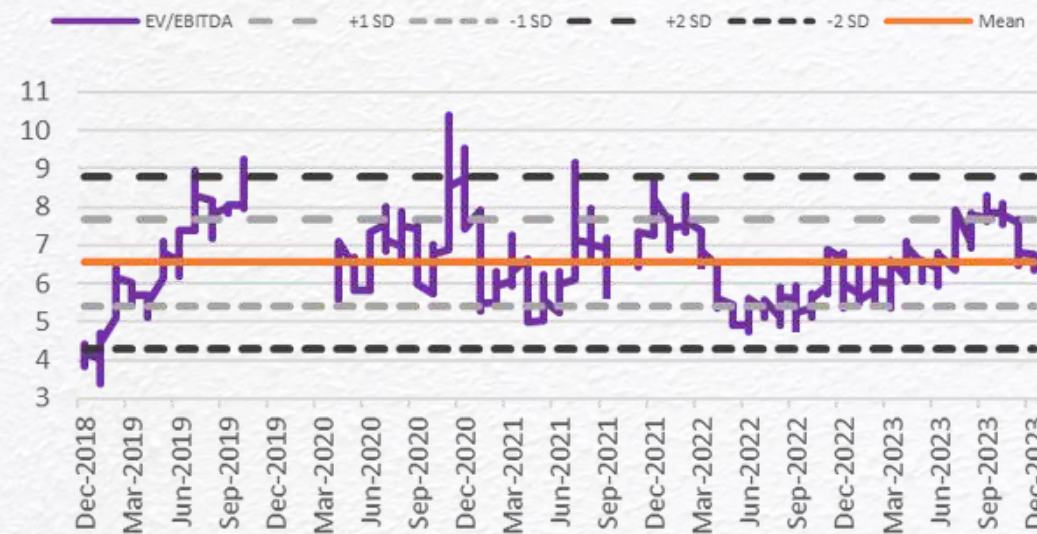
MIKA



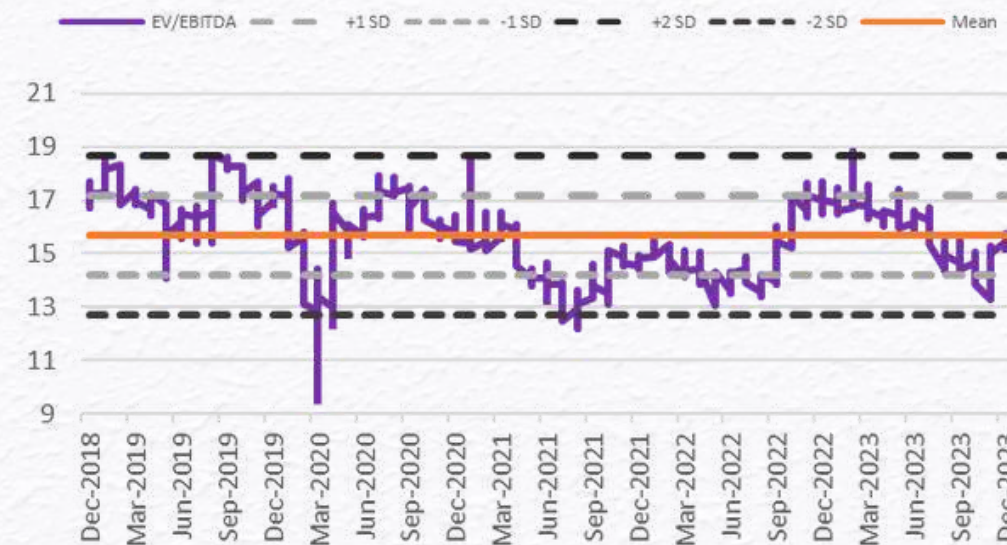
HEAL



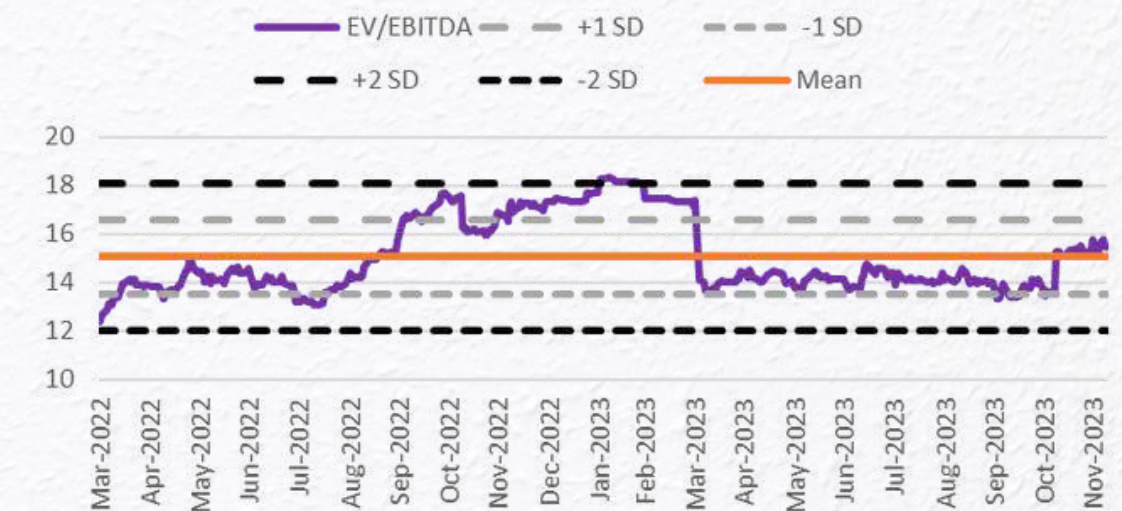
PRDA



KLBF



IDXHLTH



Technology

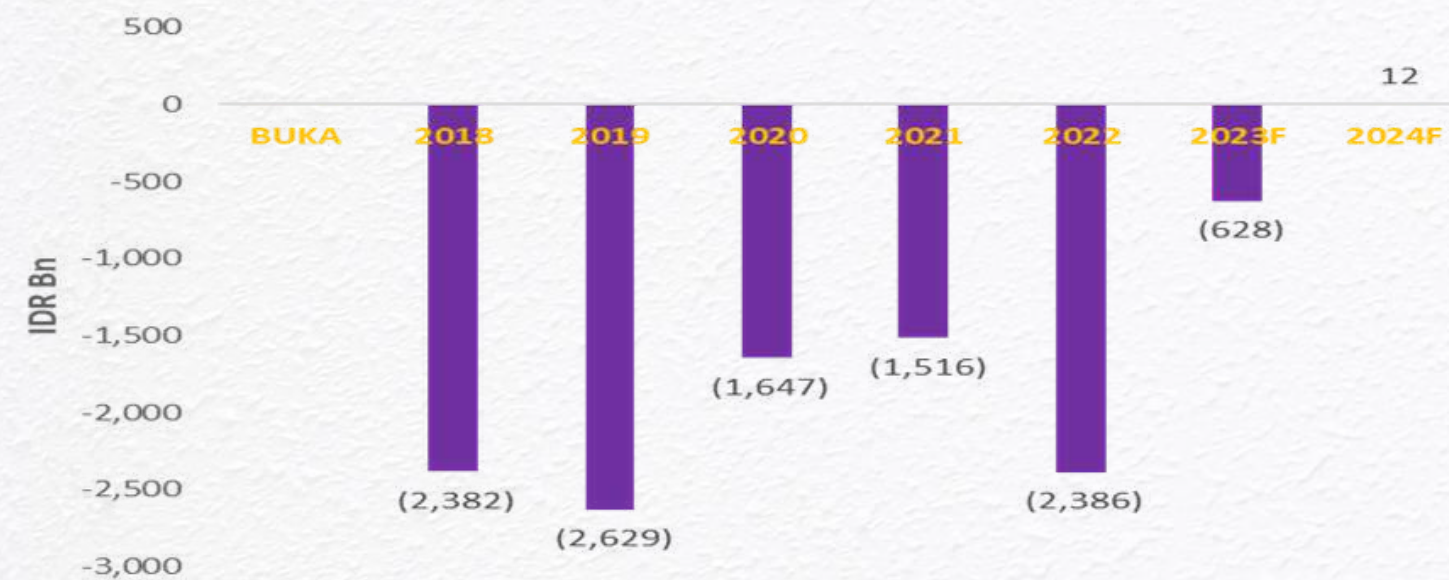
Struggling in profitability but have positive progress (Neutral)

EBITDA improvement yoy from technology player

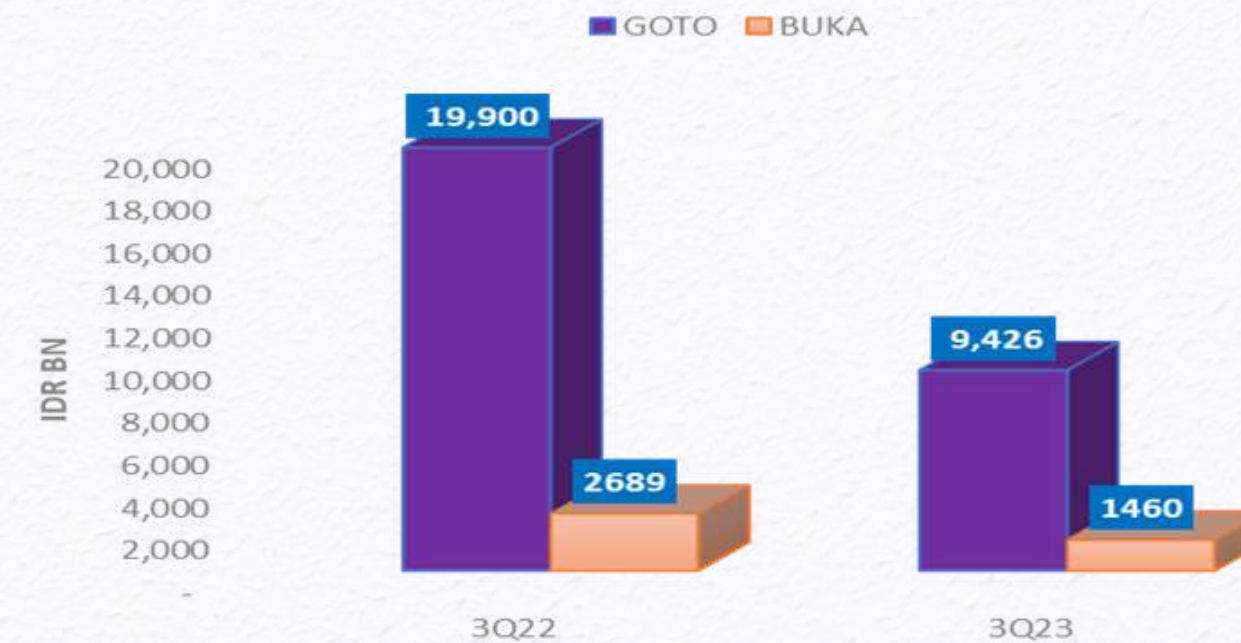
GOTO - EBITDA



BUKA - EBITDA



Efficiency especially in operating expenses

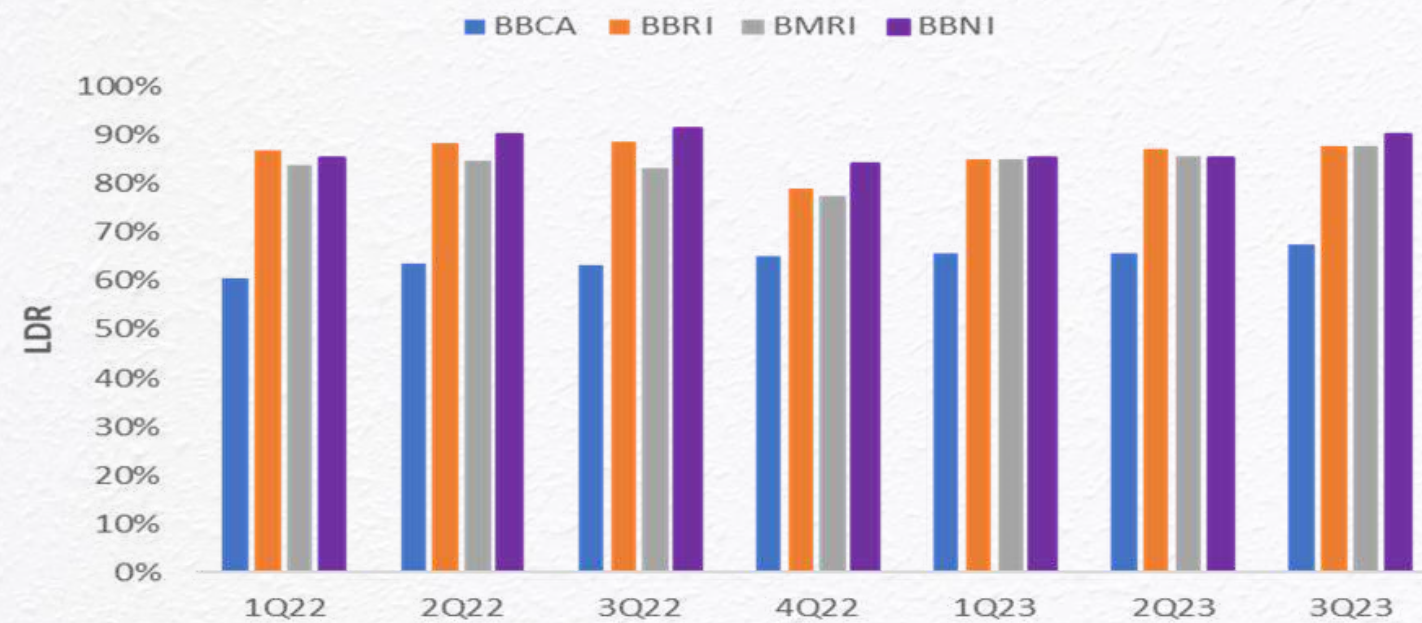


- Technology sector is still struggling in our view in terms of profitability. But we see that there is a positive progress year over year.
- We tend to adopt wait and see stance in technology sector especially in 2024.

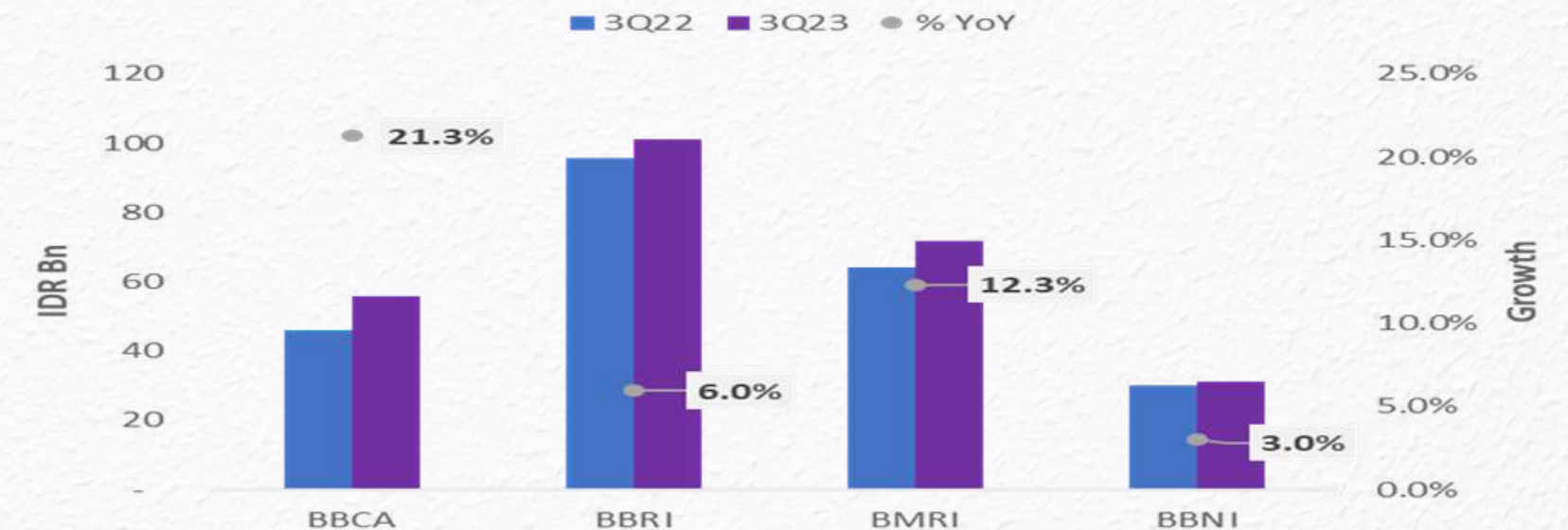
Banking Sector

Cautious with slower growth of loan (Neutral)

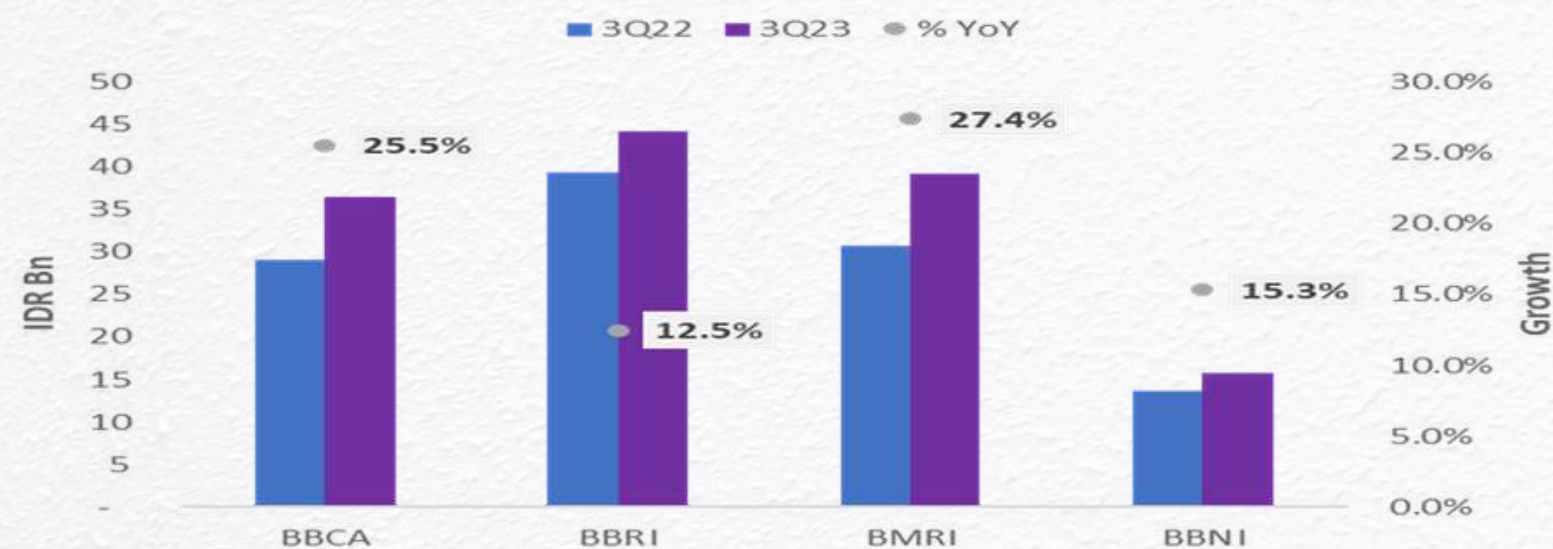
Higher LDR exclude BBKA



NII growth YoY in banking sector



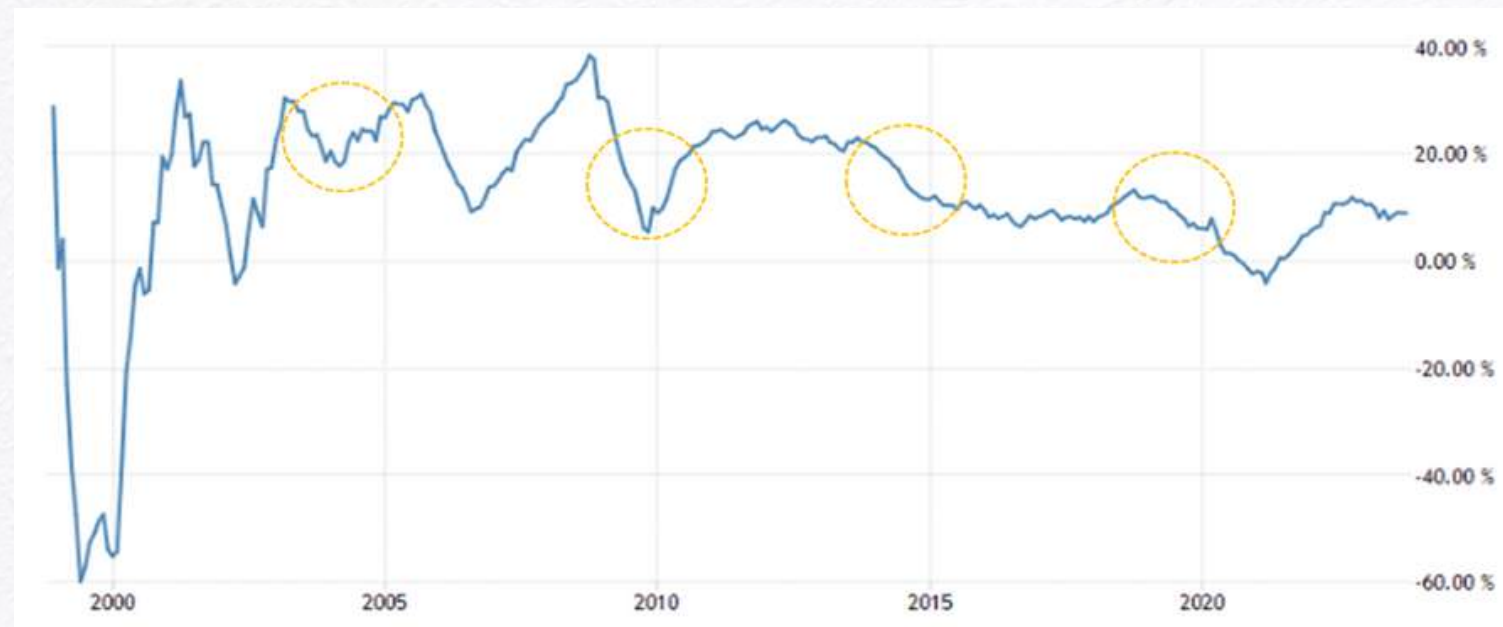
NPAT growth YoY in banking sector



- Overall, banking sector have posted solid results in 2023
- Upside risk in 2024 will be room to increase loan disbursement if LDR conditions improve.

Banking Sector

Slower loan growth in election year



Working capital loan lead the slower growth

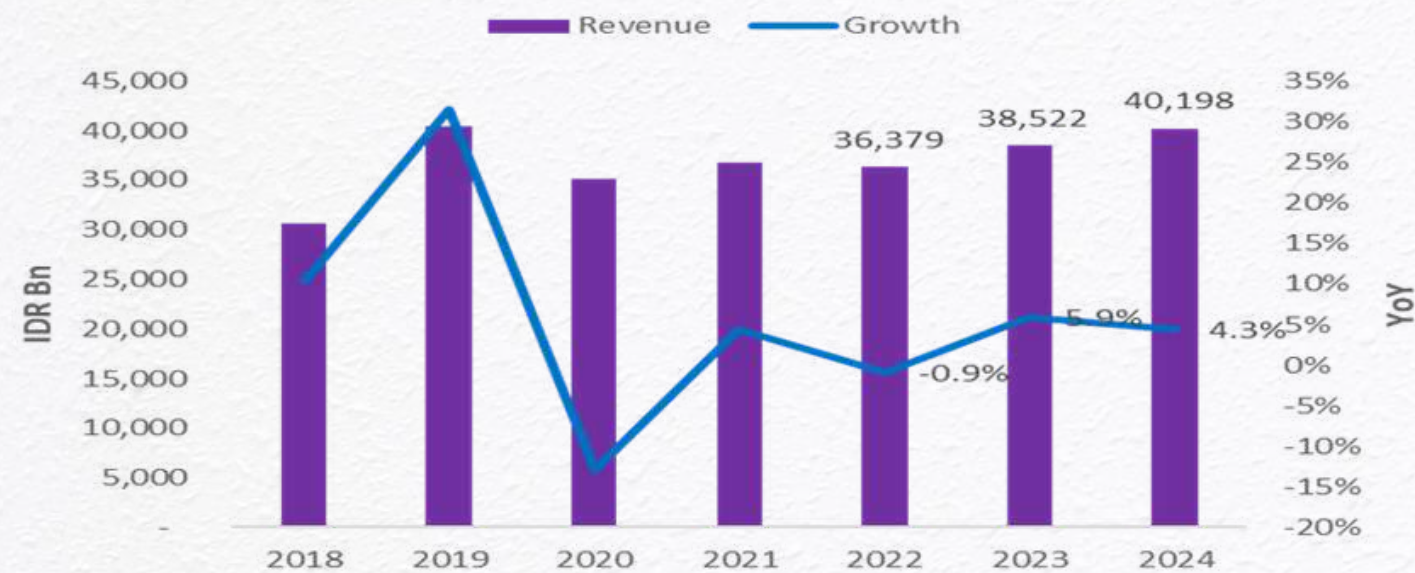


- We are cautious with loan growth trend in election year
- Working capital loan tend to decline aligned with companies' tendency to be more conservative in term of expansion strategy in election year.

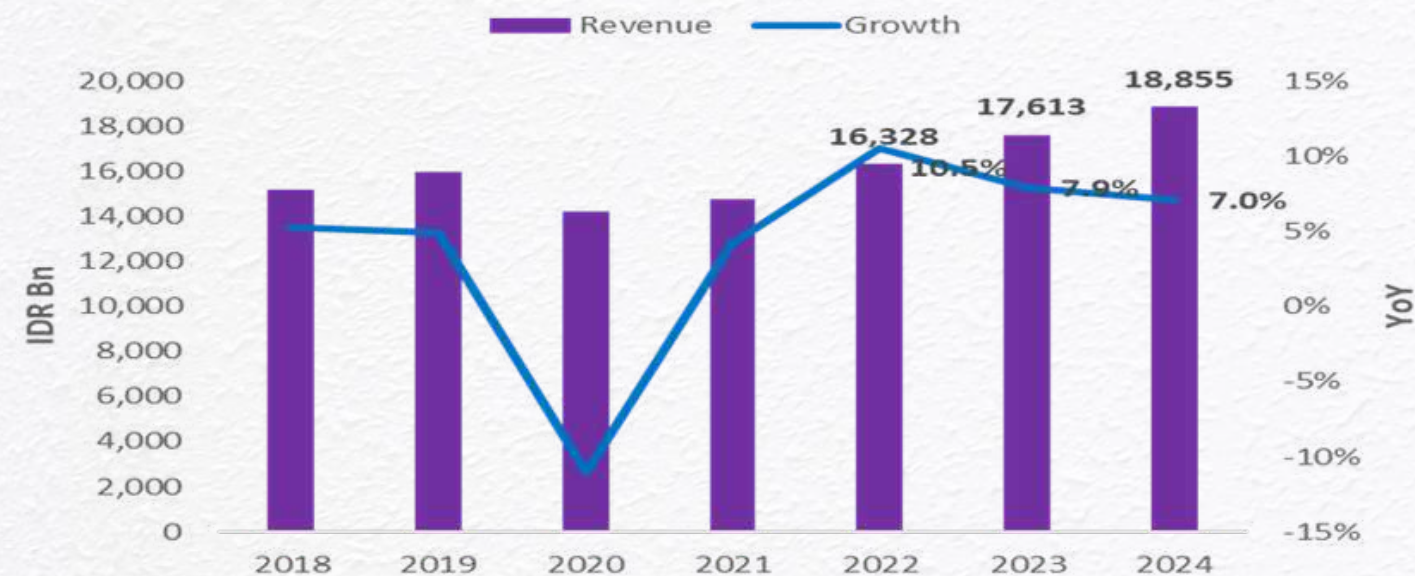
Cement Sector

Supply surplus still become the problem (Underweight)

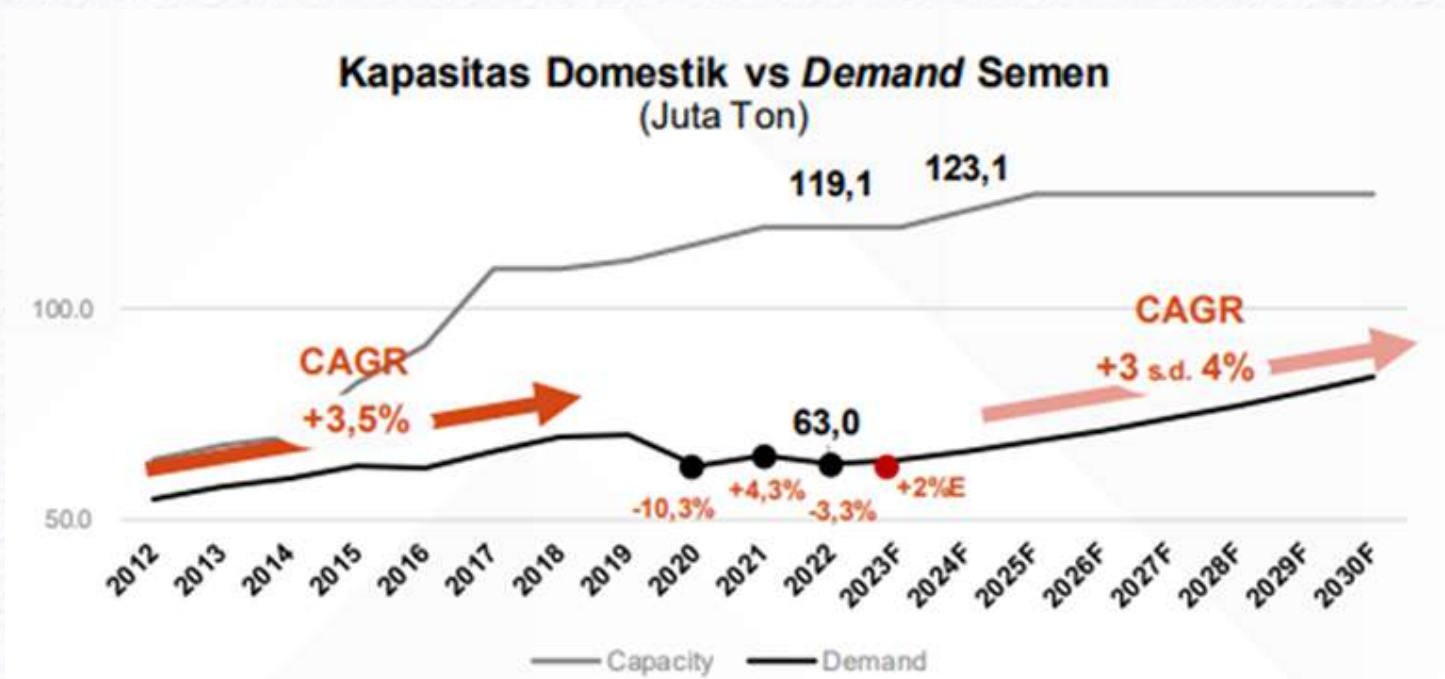
Single digit growth for cement player SMGR



INTP



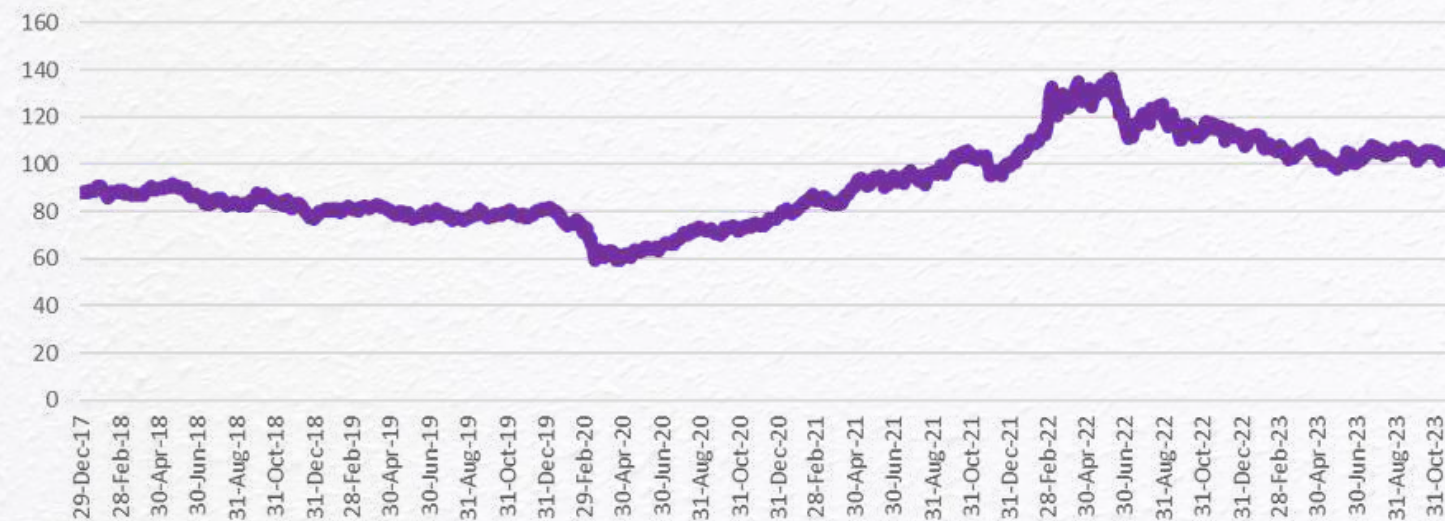
Indonesia supply surplus in cement



- We think that supply surplus in cement sector is still the main concern for investors.
- The biggest player in cement sector also have single digit growth year over year and we think might repeat in the next year.

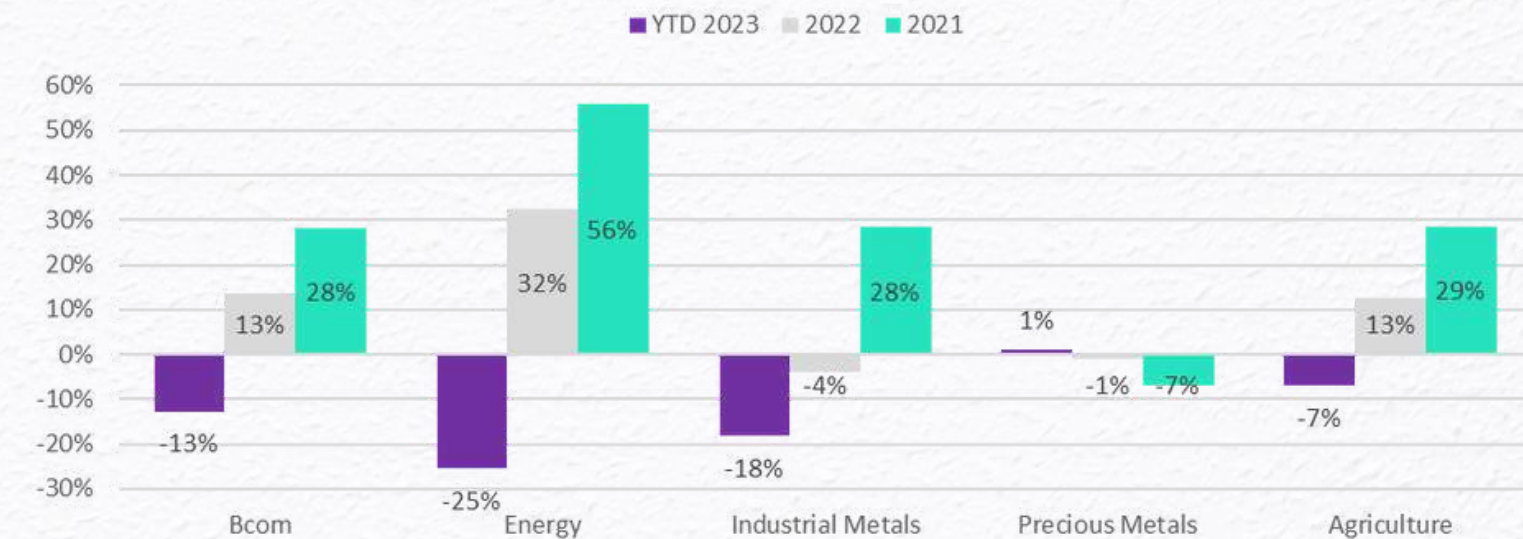
2024 Commodities Sector Outlook

BCOM index in down trend



- Following two years of consistently achieving double-digit return, the BCOM Index experienced around 10% decline in 2023.
- Anticipated stable demand growth is expected to drive the prices of essential commodities, such as oil, upward slightly from their current levels, in 2024.
- However, the absence of strong macroeconomic drivers suggests that investors must adopt a tactical approach

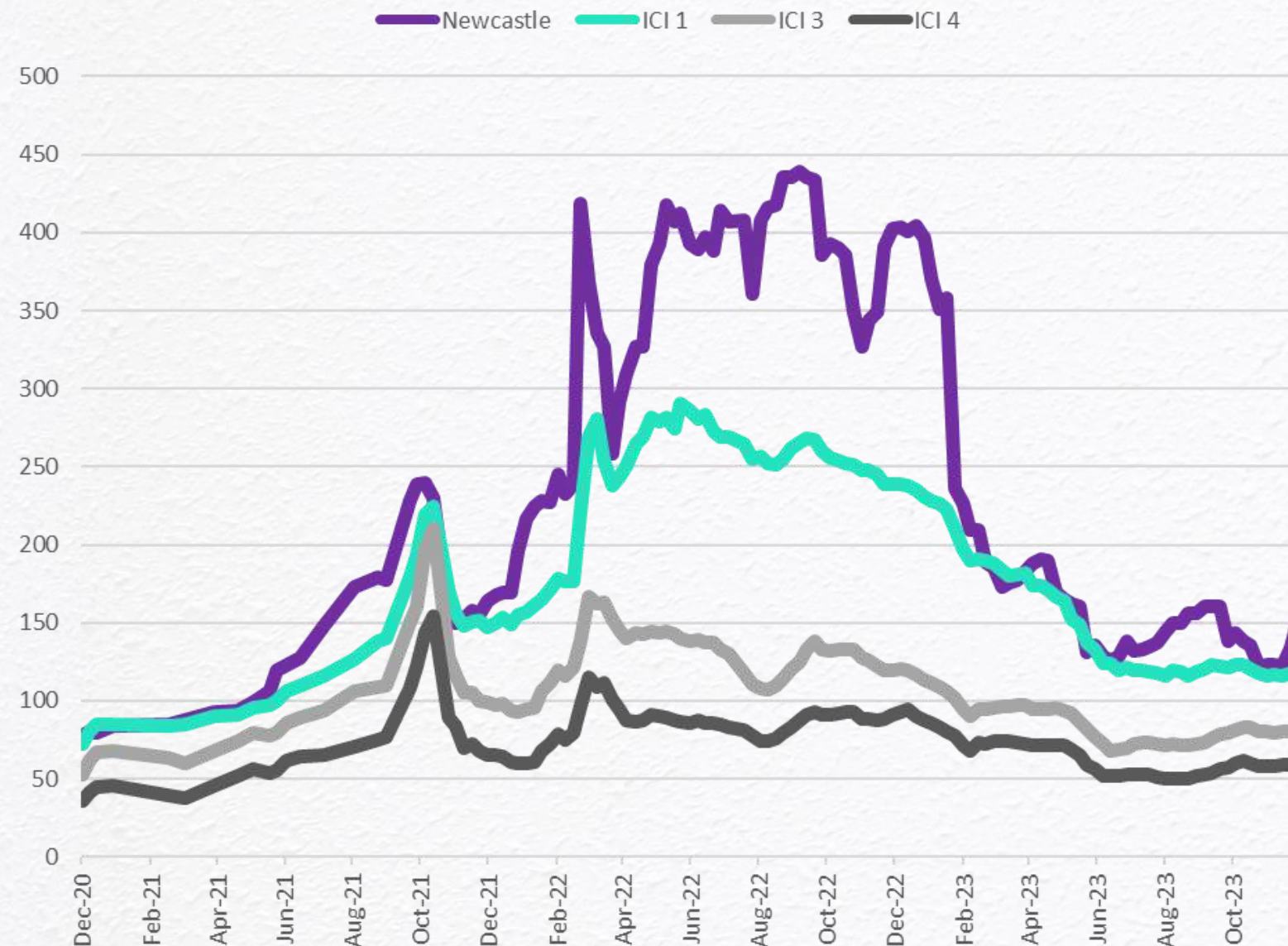
Energy was the most underperforming in BCOM sub-index



- BCOM Energy has experienced the most significant decline among various sectors, recording a 25% YTD drop.
- This downturn is primarily attributed to a substantial 60% YTD decrease in the BCOM Natural Gas subindex.
- The BCOM Industrial Metals subindex has also faced challenges, witnessing an 18% YTD decline due to persistent weak ex-China demand.
- The BCOM Agriculture subindex has incurred a 7% YTD decrease.

2024 Coal Outlook

Coal price is in down trend

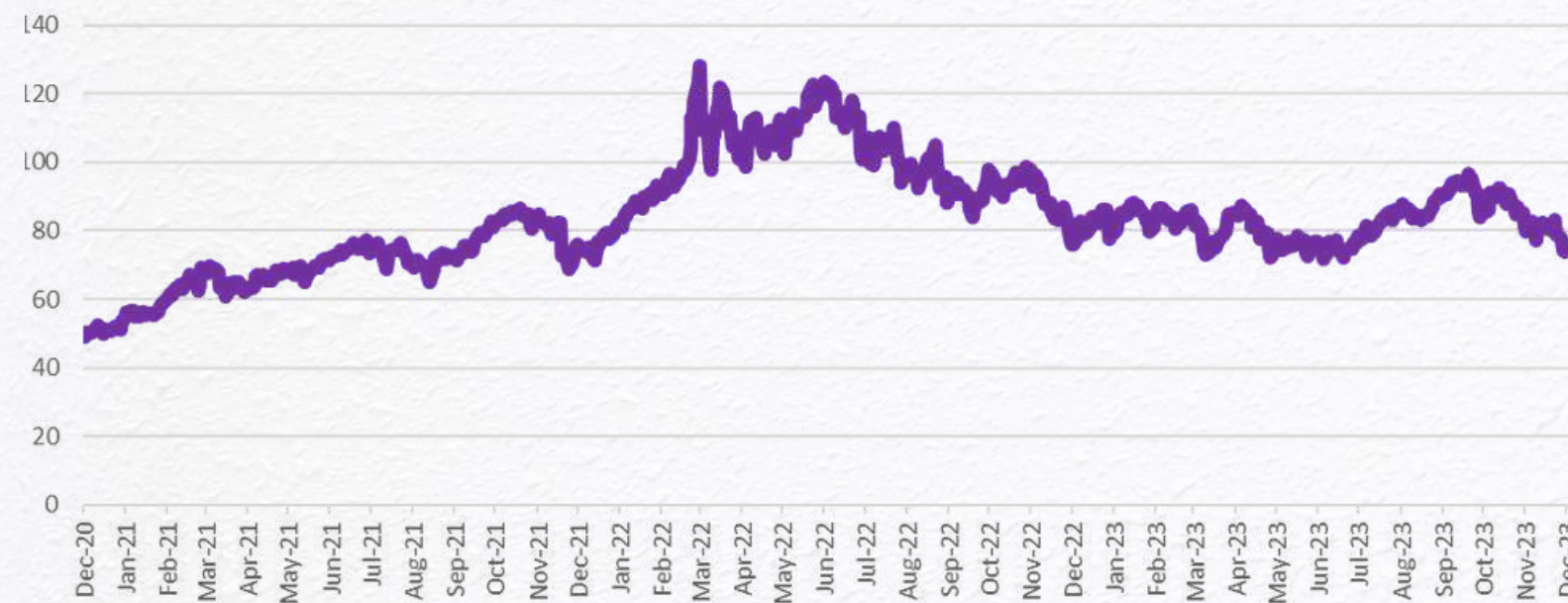


- Even though coal prices have been able to maintain levels higher than historical averages, there has been a significant decline, notably highlighted by the Newcastle coal price plummeting by 62% YTD to USD 151/ton.
- Similarly, the ICI-1 coal price has experienced a 49.9% YTD decrease to USD 117.9/ton, leading to the narrowing of the premium of Newcastle to ICI-1 to 3% from its peak of 70% in September 2022.
- The primary concerns revolve around potential deceleration in China's economic growth and the likelihood of a mild winter
- We prefer to look for miners that focus on reducing production costs
- This cost-cutting strategy aims to mitigate the impact of lower prices

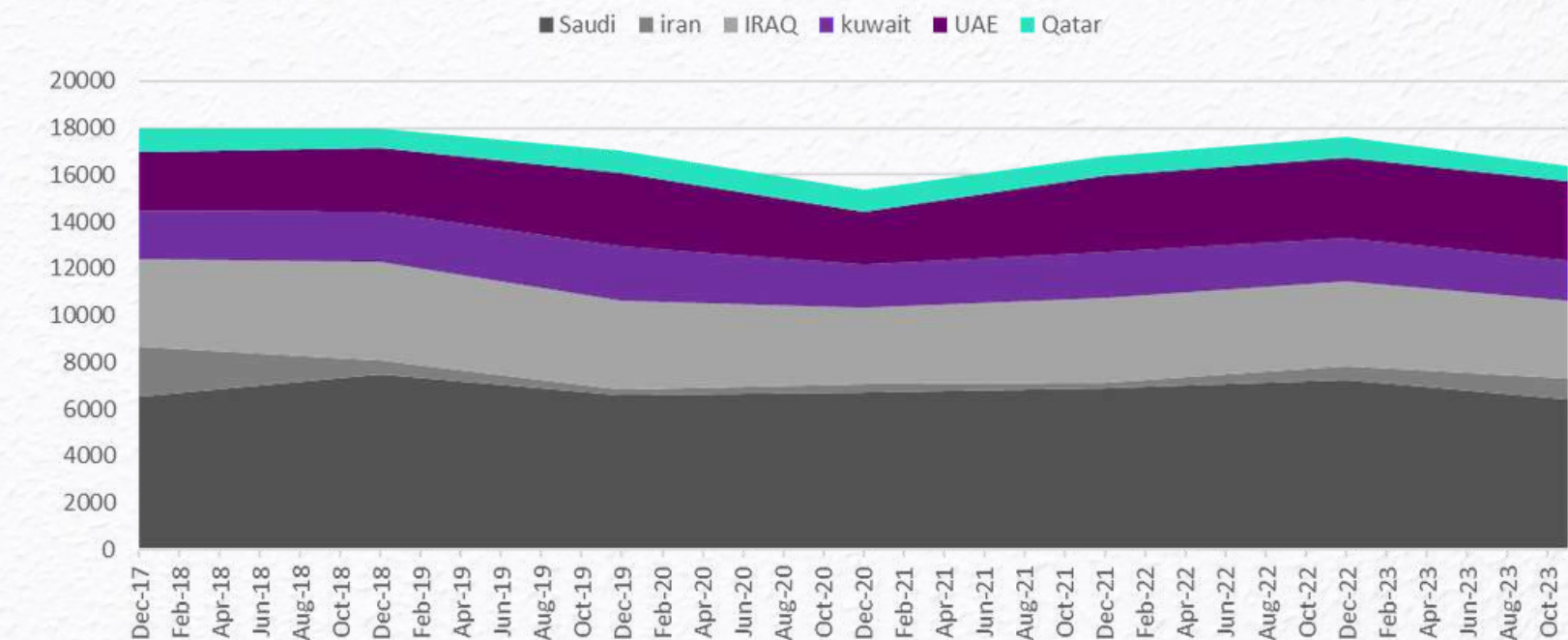
Source: Avram research, Bloomberg

2024 O&G Outlook

Brent oil price decline since Sept 23



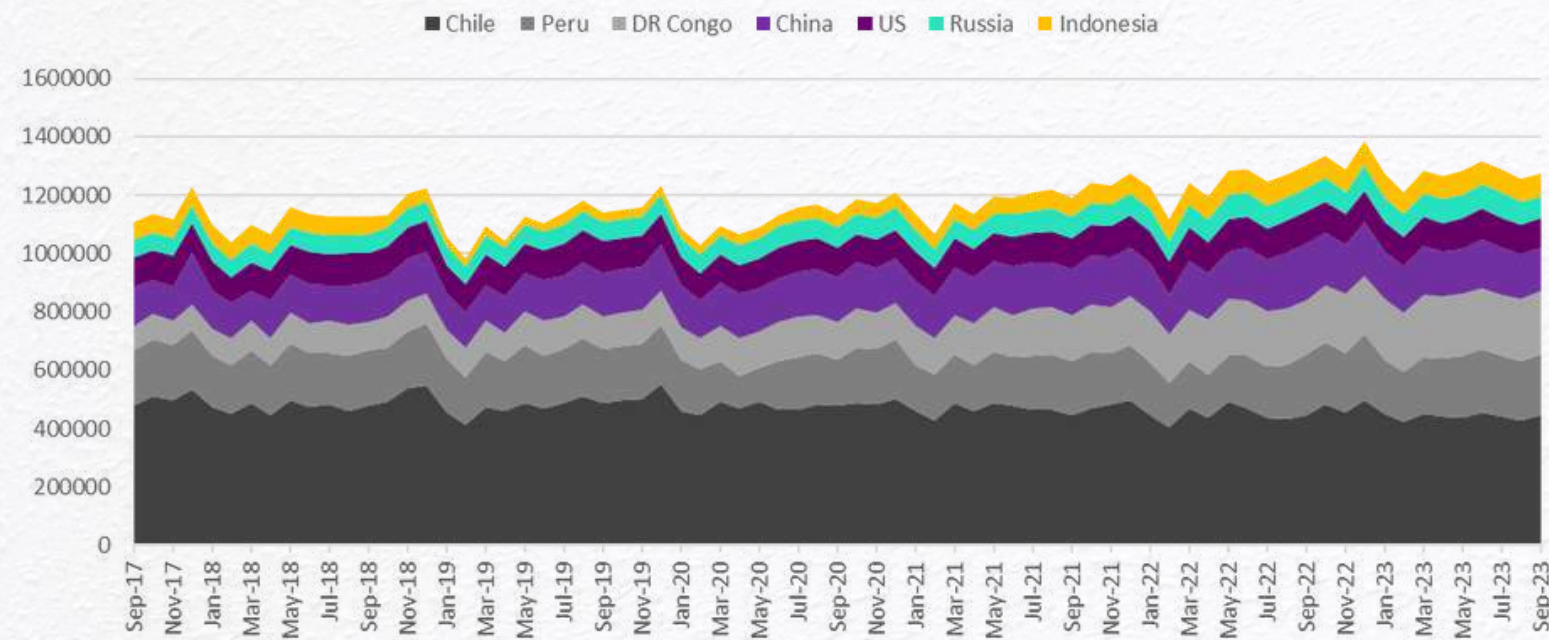
Middle East crude oil export declined in YTD



- Oil prices underwent a sell-off, sliding from \$95.31/bbl in late September to \$74/bbl in early December, following concerns on demand, and lack of clarity on production cuts for Q1 2024 in the latest OPEC+ meeting.
- In our view oil prices in 2024 will be driven by Saudi Arabia and Russia's commitment to their voluntary production/export cuts; and on the demand side, by strong global service sector, continued recovery in Asian air travel, and refinery runs in China.

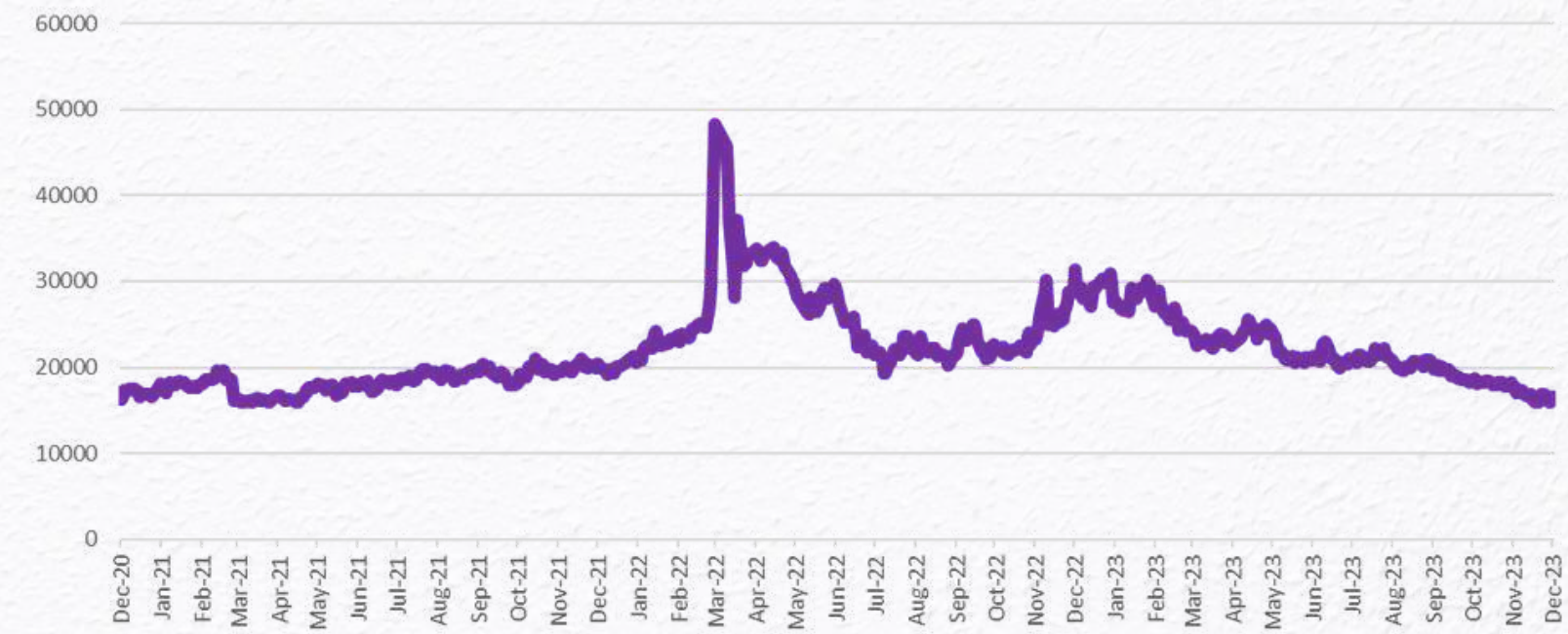
2024 Industrial Metals Outlook

Production by 7 largest CU countries in stable stance



- Amidst the global economic slowdown in 2023, copper has found support from China's investments by State Grid and increased electric vehicle production
- In 2024 we expect continued increase in green demand for copper.

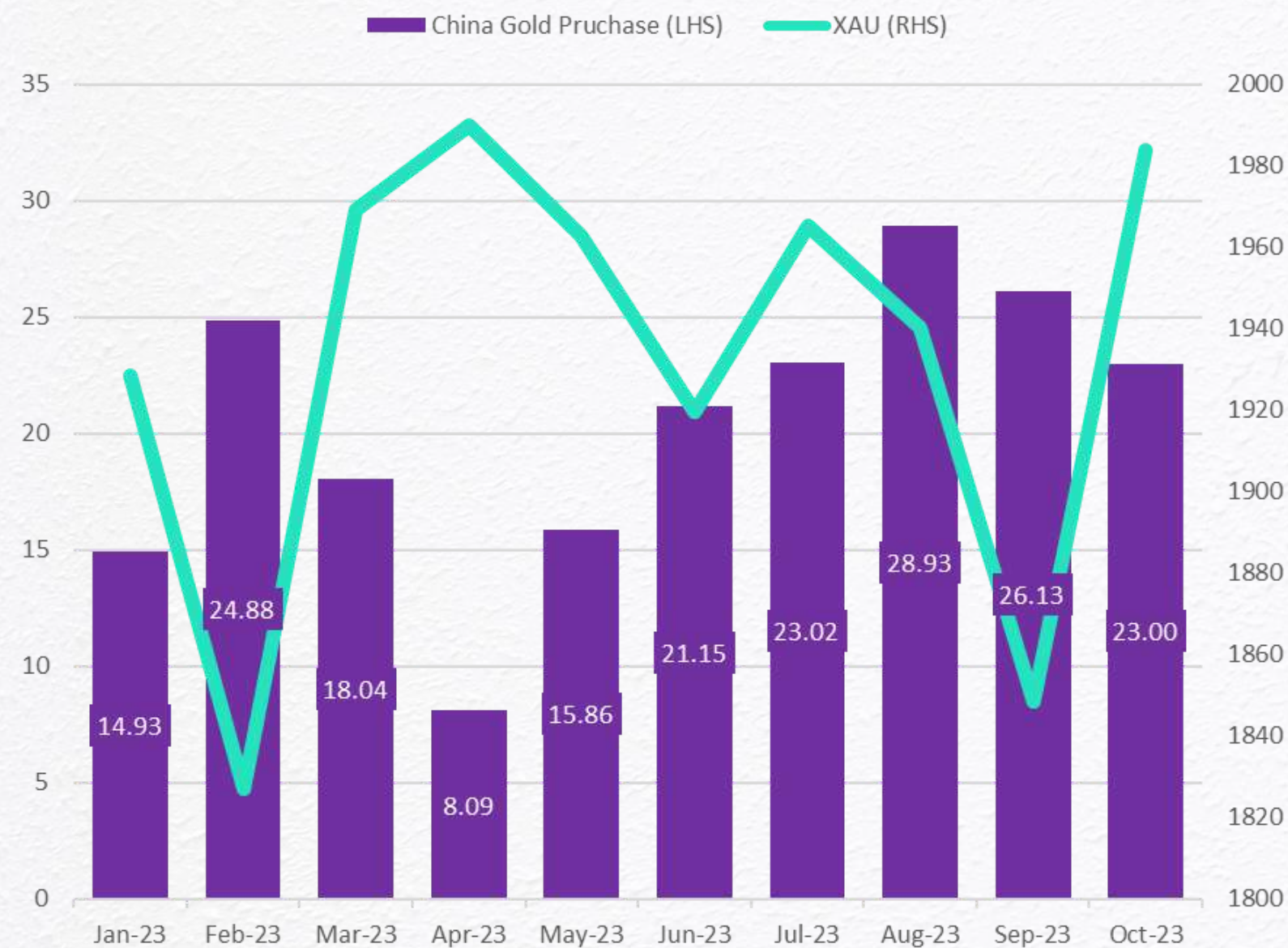
LME nickel price in down trend



- Although there is a near-term risk associated with a potentially low nickel price environment, we remain optimistic about the sector's robust potential in the medium term.
- This optimism is fueled by the sector's proactive efforts in constructing High-Pressure Acid Leach (HPAL) facilities dedicated to battery-grade nickel production, coupled with an improved demand outlook for electric vehicle in 2024.

2024 Precious Metals Outlook

PBOC is the largest gold buyer globally in 2023



- Central banks exhibited a slowdown in gold purchases during October, but this change had no significant impact on the prevailing trend of strong buying
- The reported global net purchases amounted to 42tn for the month, marking a 41% decrease from September's revised total of 72tn.
- Despite this decline, it remained 23% above the monthly average of 34tn for January through September.
- The surge in central banks' interest in gold is motivated by countries seeking to reduce their dependence on the US dollar as a reserve currency
- China has taken the lead in driving record-breaking levels of central bank gold purchases worldwide in 9M23.
- We believe this trend will continue until Q1 2024.

Source: Avram research, Bloomberg, IMF IFS, World Gold Council

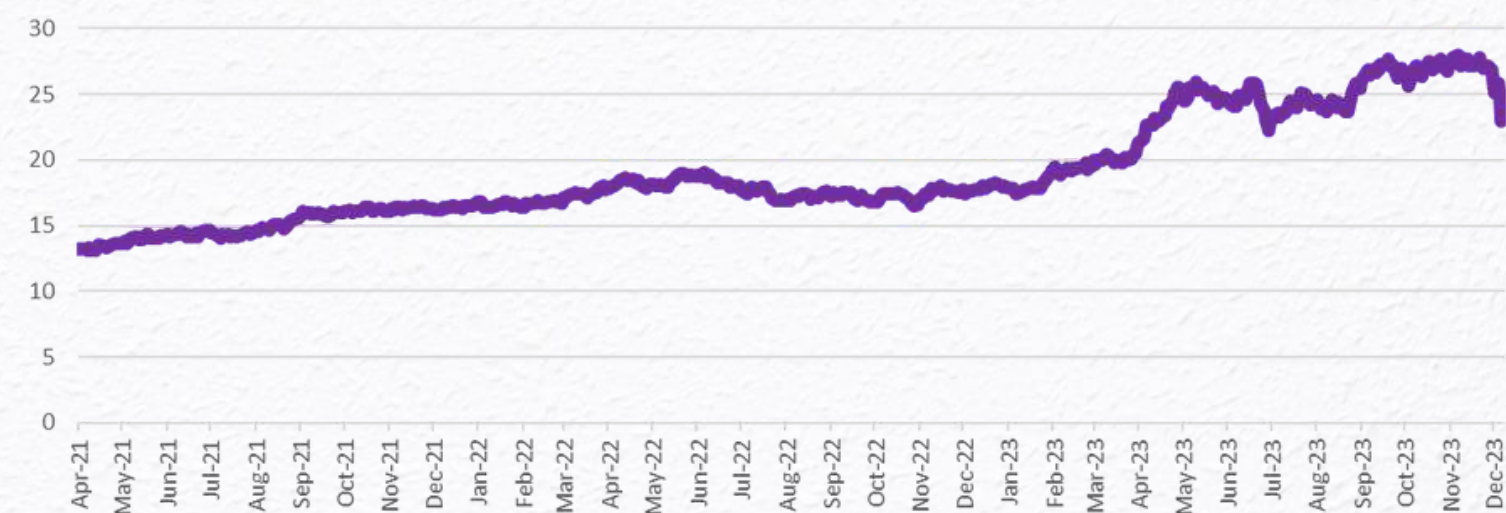
2024 Soft Commodities Outlook

Indonesia CPO total production and export tend to decline



- Anticipated reduced rainfall is likely to result in a delay in the Fresh Fruit Bunch (FFB) harvest.
- However, according to Indonesia's GAPKI (IPOA, Indonesian Palm Oil Association), undertaking proper maintenance before the dry season could potentially mitigate the risks of a decline in Crude Palm Oil (CPO) production.
- Additionally, Malaysia may witness an uptick in CPO production, as the previously reported worker shortage is no longer considered a significant issue

Global sugar price decline since 4Q2023



- Sugar prices in 2023 have experienced a significant surge due to sluggish supply and export challenges.
- The global sugar market has sustained a multi-year upward trend, reaching recent highs of over \$0.28/lb, marking the highest point since the early 2010s when prices nearly touched \$0.34/lb.
- Factors such as extreme weather conditions, particularly drought in locations like India, and logistical constraints in Brazil, have contributed to the robustness in sugar prices in recent years.

Summary Market Forecasts 2024



Market Forecast 2024

Indicator	2019	2020	2021	2022	2023F	2024F
Real GDP (YoY%)	5	-2	3.7	5.3	5	5
CPI (YoY%)	2.8	2	1.6	4.2	3.7	3
Curr. Acct. (% of GDP)	-2.7	-0.4	0.3	1	-0.3	-0.8
Budget (% of GDP)	-2.2	-6.1	-4.6	-3.6	-2.3	-2.3
BI 7-Day RR	5	3.75	3.5	5.5	6	5.75 - 5.50
2-Year Bond (%)	5.77	3.85	4.13	6.08	6.45	6.20 - 5.45
10-Year Bond (%)	7.06	5.89	6.38	6.94	6.5	6.45 - 5.95
PE ratio	17.7	27.2	20.5	14.5	15.4	15.0 - 15.50
JCI Index	6,300	5,979	6,581	6,851	7,273	7,700 - 8,320

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