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THE WINNER IS STILL THERE

Avrist Asset Management Team

MARKET AND PRODUCT UPDATES
MARCH 2024

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Bonds Market Outlook

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IndoGB Rallied Despite Fed's Push Back

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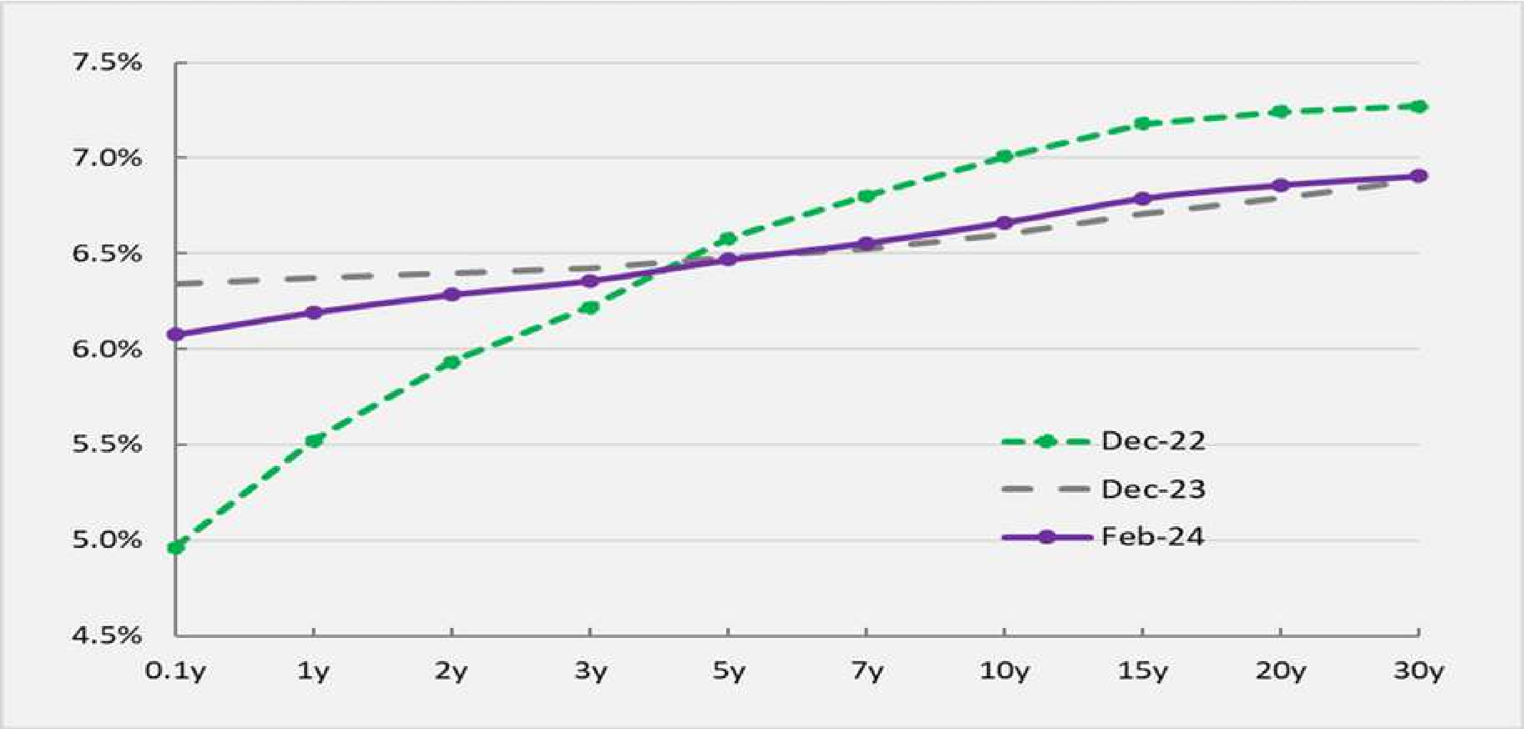
Spread widening amidst spike in UST yield

Bull steepening, driven by BI intervention

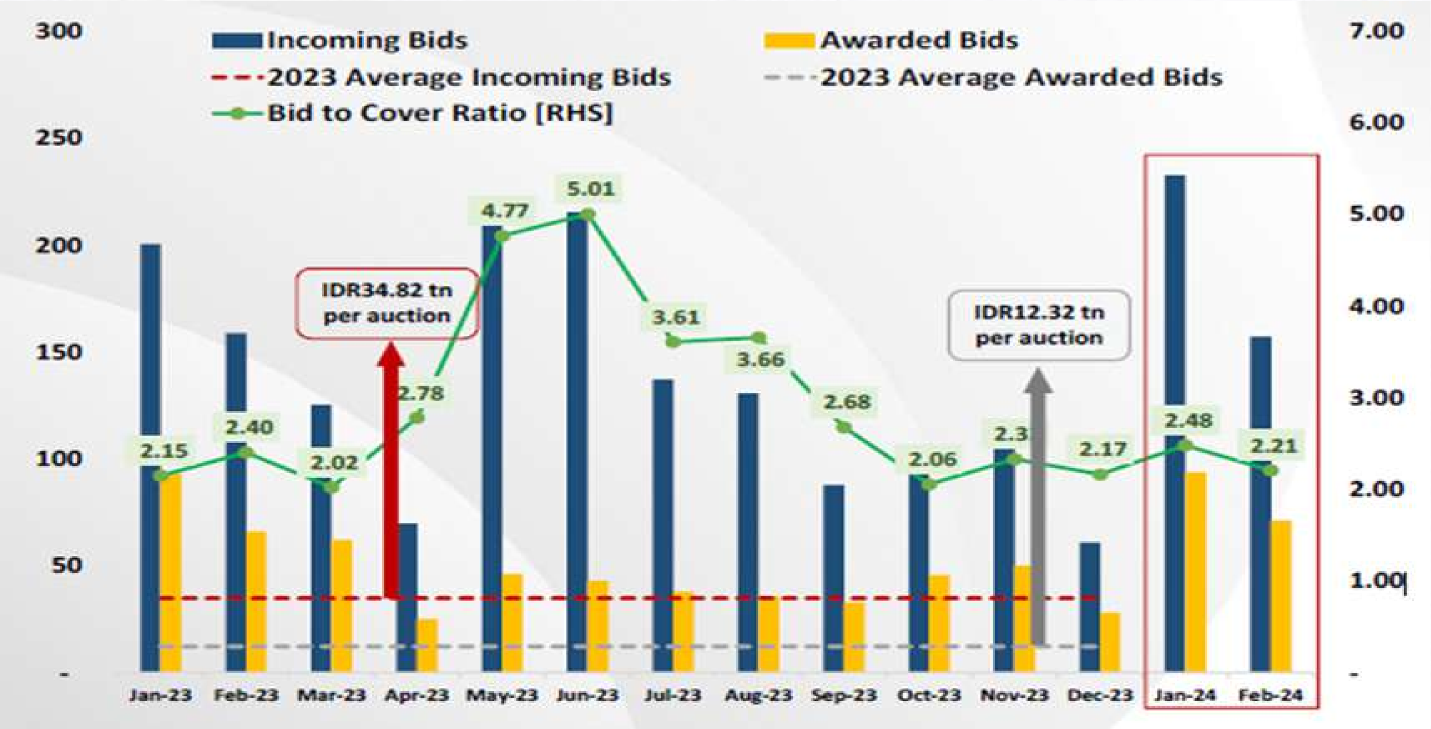


- IndoGB yield declined despite a surge in UST yield
- Yield curve shifts to bull steepening, signaling BI rate cut outlook and likely higher inflation
- Risk to watch:
  - Fiscal risk
  - Fed rate outlook
  - Geopolitics (US election, middle east, Russia v Ukraine)

Source: Bloomberg, IBPA, Avram

Slower Supply, While Demand Remains Intact

Strong demand but less issuance



IndoGB fund flow YTD2024 (in IDR tn)

	2024			% of flow in 2024
Institution	24-Jan	24-Feb	YTD	
Banks	31.8	16	47.8	32.90%
Bank Indonesia	8.5	31.4	39.9	27.50%
Mutual Fund	0.2	2.4	2.5	1.70%
Insurance & PF	12.2	6.2	18.4	12.70%
Foreign Investors	-0.2	-4.8	-4.9	-3.40%
Individual	5.4	17.2	22.5	15.50%
Other	7.5	11.3	18.9	13.00%
Total	65.4	79.6	145.1	100.00%

- **Supply:** MoF no rush to front load given current fiscal surplus and new government transition
- **Demand:** Strong demand driven by BI and banking sector
- **Foreign position:** Net sell on IndoGB due to fiscal risk and uncertainty of fed rate outlook

Source : BDJPPR

Uncertainty on the Rate Cut Timing

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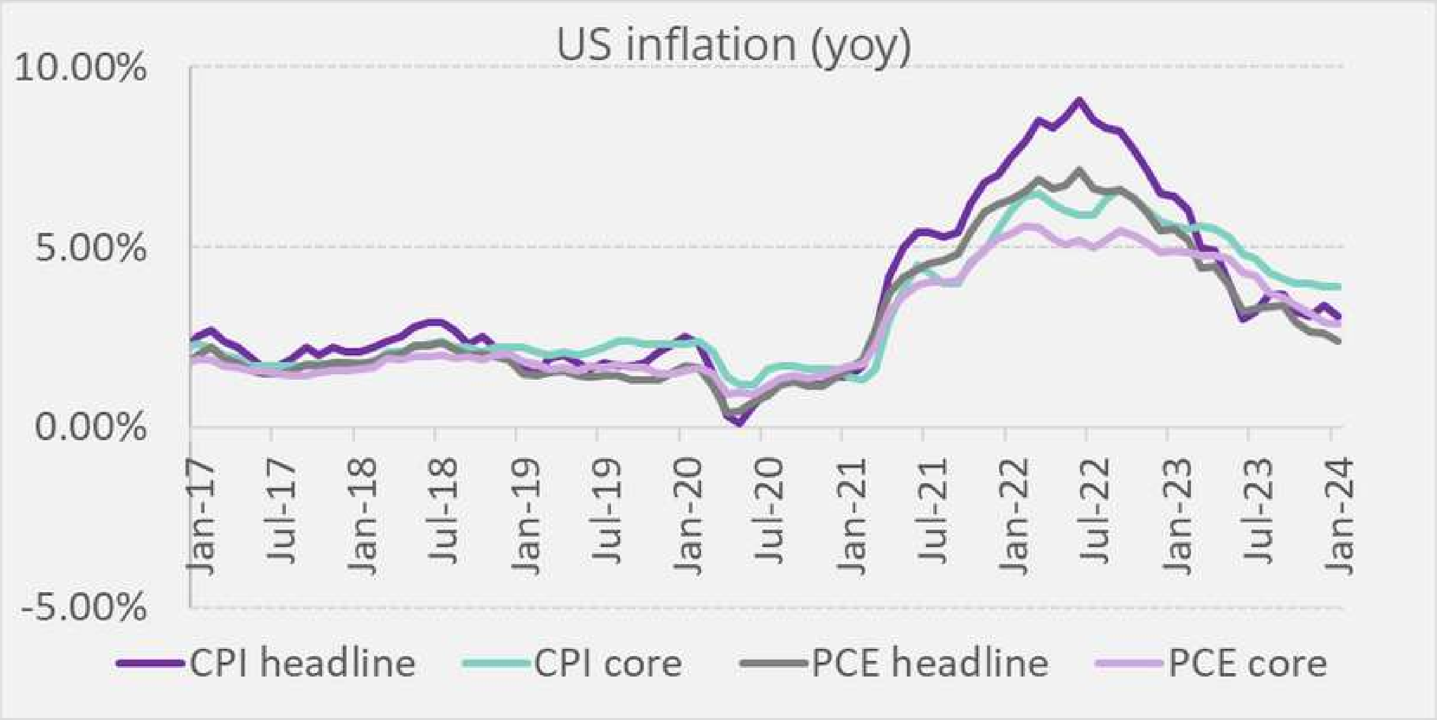
Core inflations remains key concern



Fed rate cut expectation pushed back to June 24

CME FEDWATCH TOOL - MEETING PROBABILITIES

MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024				0.0%	0.0%	0.0%	0.0%	4.0%	96.0%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	18.0%	81.4%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	10.2%	52.8%	36.7%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.2%	6.0%	34.8%	43.5%	15.5%
9/18/2024	0.0%	0.0%	0.0%	0.1%	4.4%	26.8%	41.1%	23.3%	4.3%
11/7/2024	0.0%	0.0%	0.1%	2.4%	16.5%	34.5%	31.5%	13.1%	2.0%
12/18/2024	0.0%	0.0%	1.6%	11.8%	28.4%	32.5%	19.2%	5.7%	0.7%
1/29/2025	0.0%	1.0%	7.5%	21.4%	30.8%	24.9%	11.4%	2.8%	0.3%
3/12/2025	0.4%	3.4%	12.6%	24.9%	28.6%	19.9%	8.2%	1.9%	0.2%

- Rate cut expectation pushed back multiple time, from March, May and now to June 2024
- Sticky inflation (notably the core segment) and geopolitical risk put more headache on the Fed
- All eyes will be on Fed new dot plot in March 24, any deviation from previous one will increase market volatility

Source : BEA, Avram, CME FedWatch

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Equity Market Outlook

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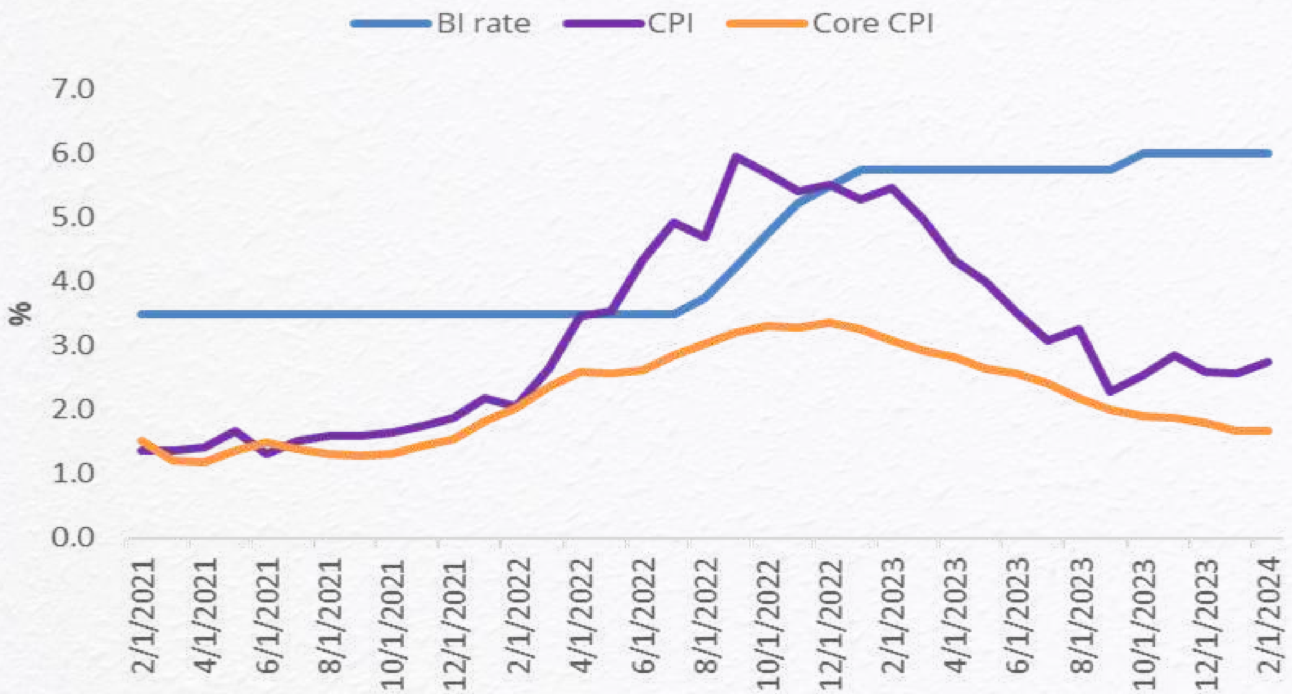
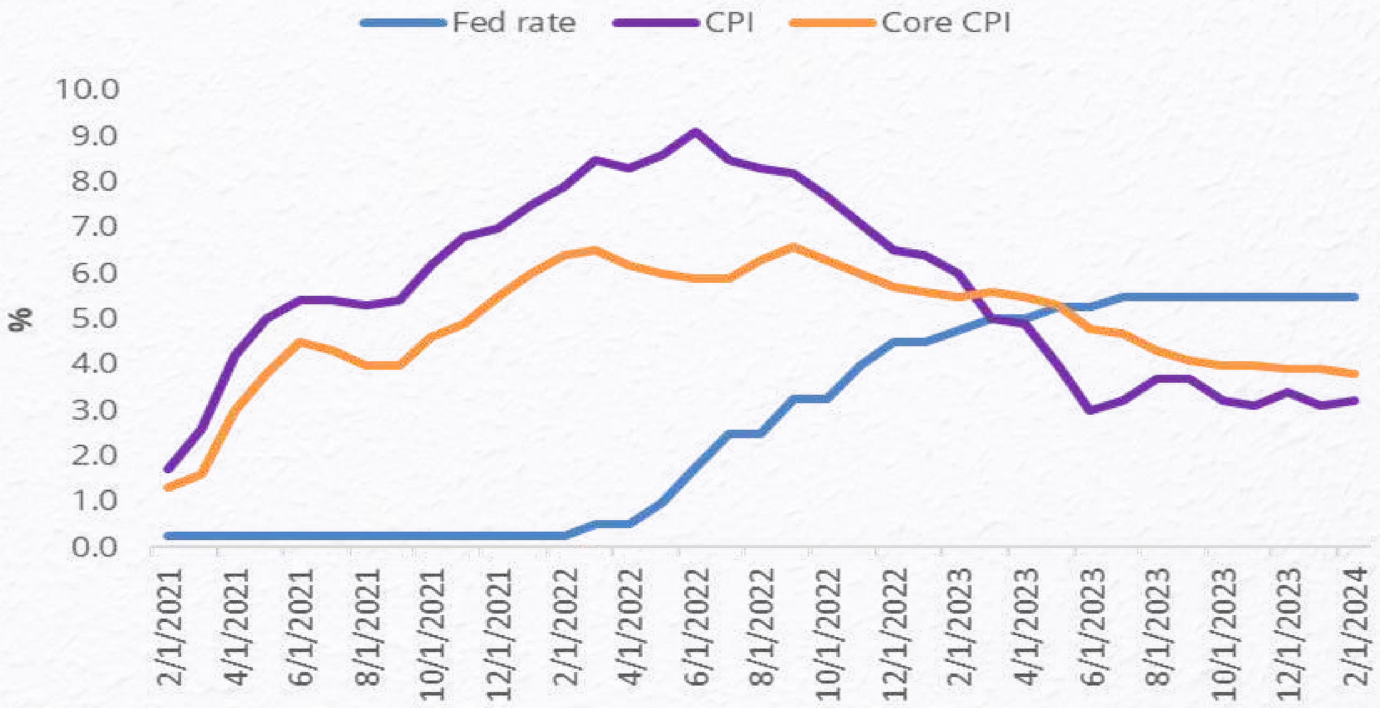
The Fed and BI are on Hold with high policy rate

Bank Indonesia is on at relatively high rate to maintain the spread with Fed rate



The Fed is on hold at relatively high rate as US inflation is still above 2%

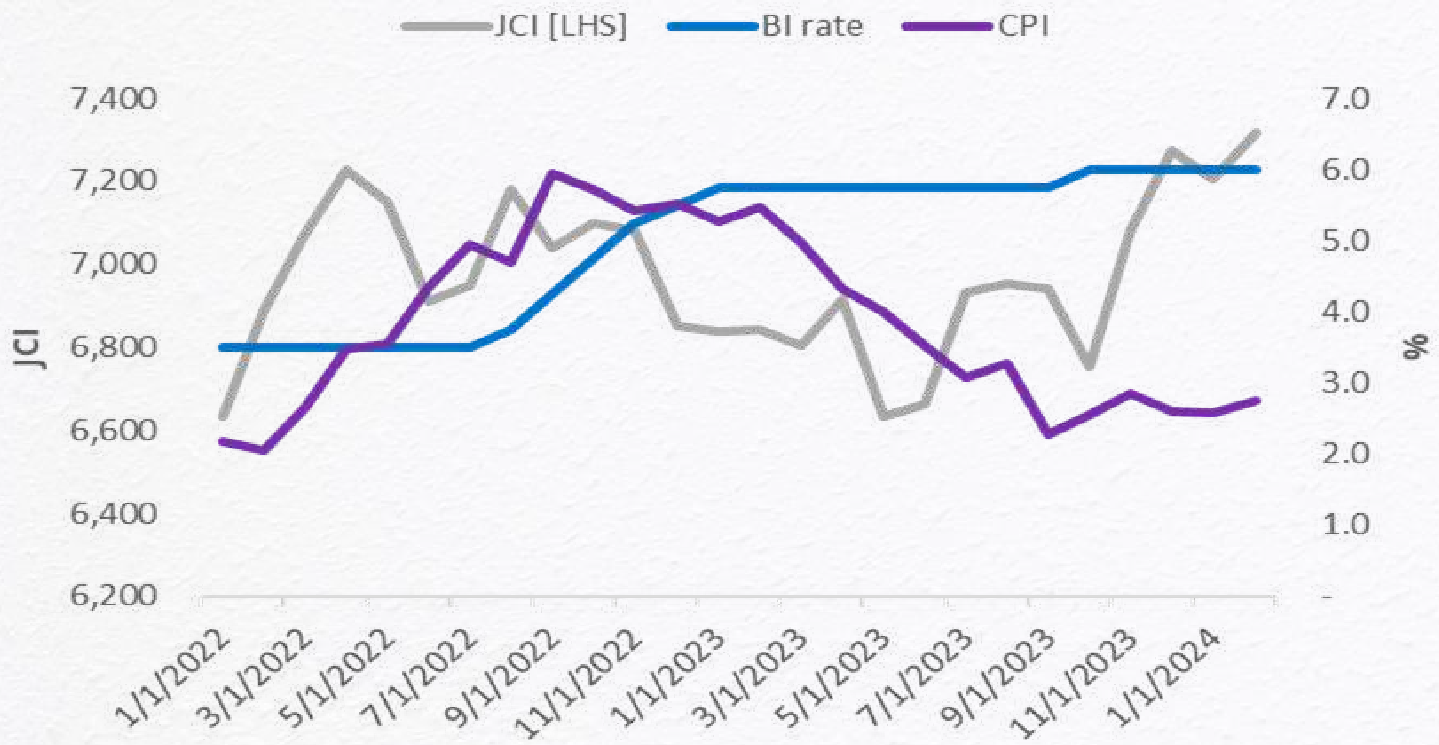


- As we know, The Fed still holds the FFR at 5.5% in the last meeting in February 2024. Market expectation shows more than 70% probability that the Fed will cut the FFR in June 2024. We think that BI will only be able to cut after the Fed cuts, in order to maintain the stability of IDR exchange rate to USD. So, currently the Fed and BI are on hold at higher level of rate which might last up to some months ahead.

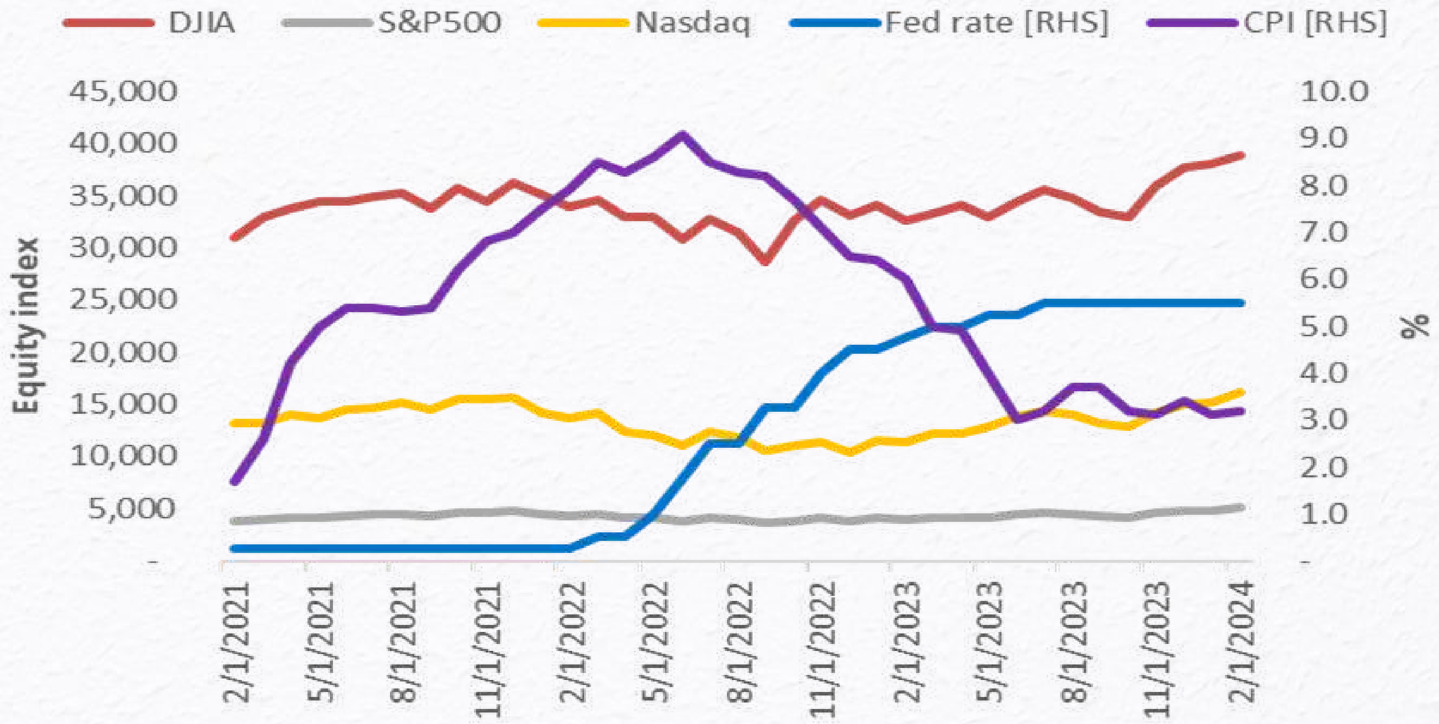
Source: Bloomberg

JCI's Performance in Latest Regime of Higher BI Rate

JCI's Performance Was Lackluster In The Latest High Rate Regime (Sep 2022 – Current)



US Equity Indices Underperformed Before The Fed Rate Reached Its Peak



- US equity indices, such as DJIA, S&P 500, and Nasdaq, experienced declines of -2.5%, -4.1%, and -6.6%, respectively, during the period from the initial rate hike to the peak interest rate (1Q22 – 3Q23). However, the US equity indices turned positive after market expectations shifted towards a potential Fed rate cut. As of February 2024, the DJIA, S&P 500, and Nasdaq had rebounded by +18.0%, +21.5%, and +25.2%, respectively. The JCI mirrored this trend, experiencing a decline of -5.9% during the period of rising interest rates and a subsequent recovery of +8.4% as of February 2024.

Source: Bloomberg

The Best Performer in Higher BI Rate Regime

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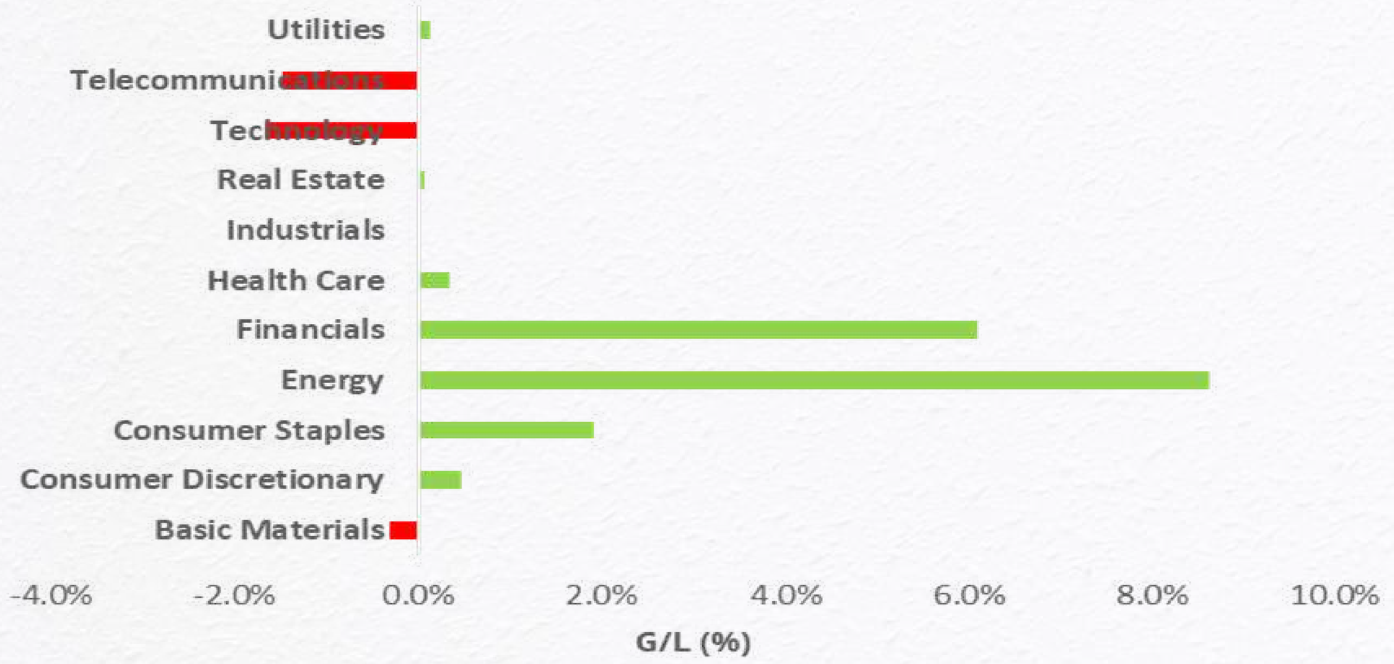
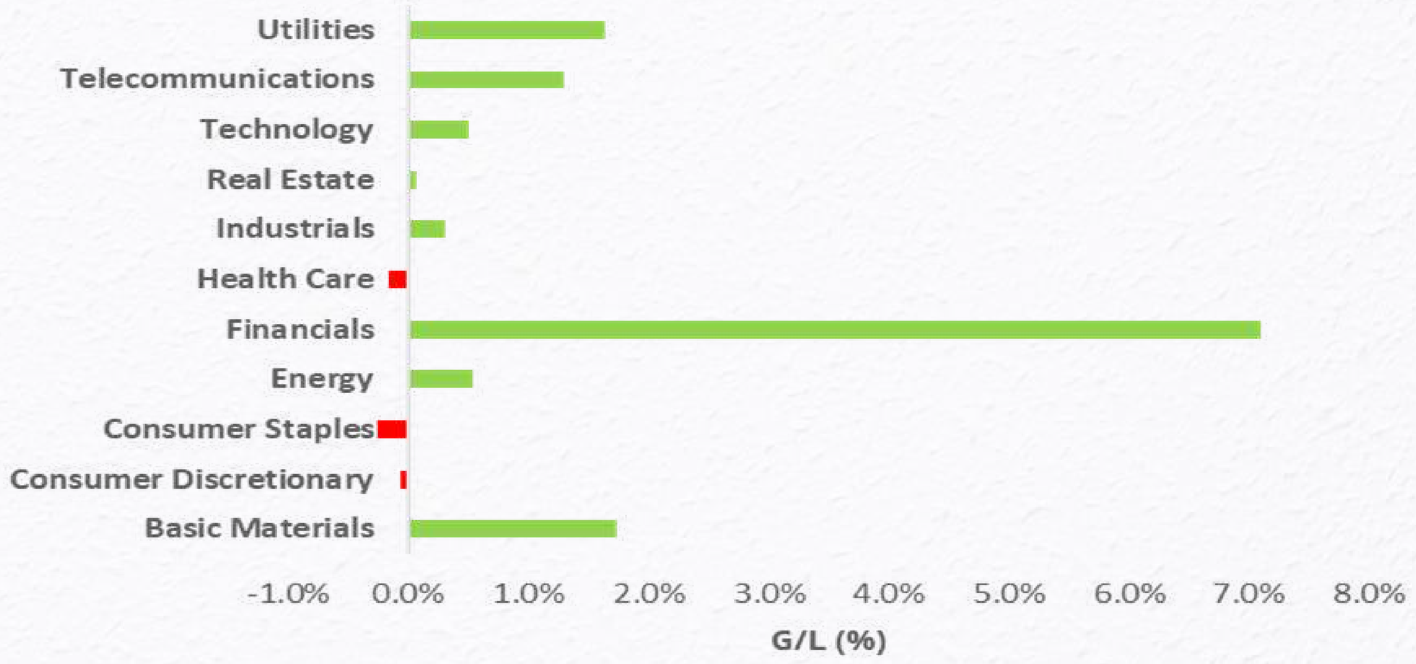
Some sectors still booked positive returns during BI tightening period in Aug 22 – Oct 23



Most sectors still booked positive returns as BI Rate peaked (Oct 23 – Feb 24)

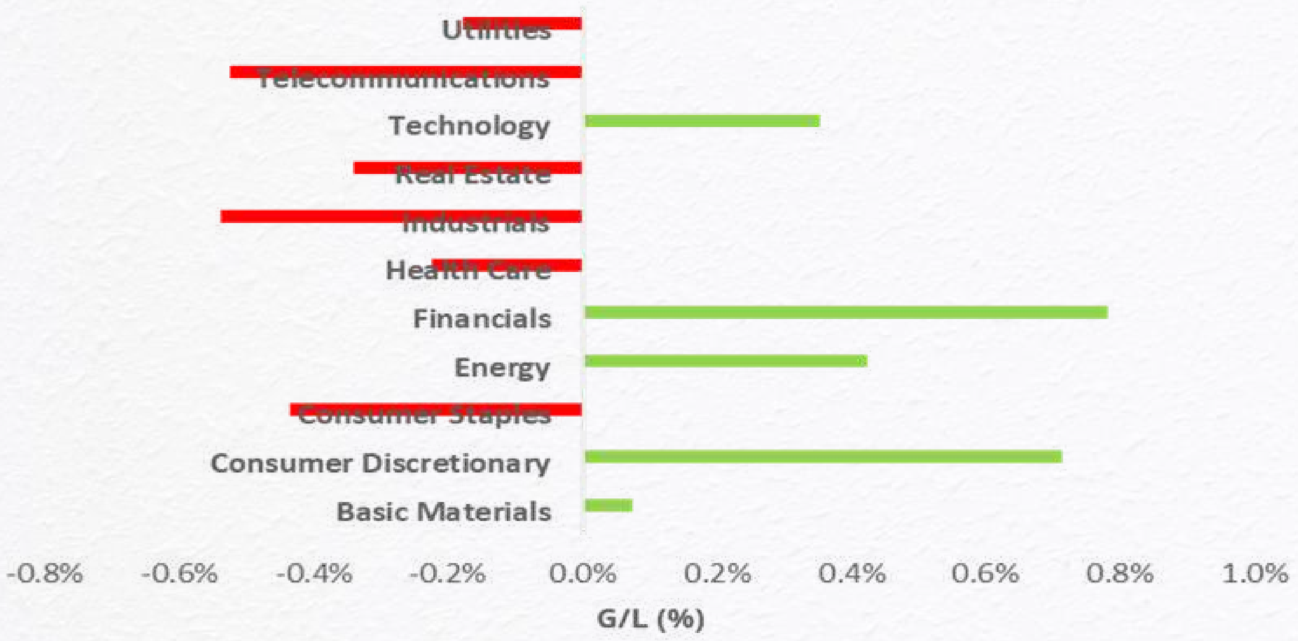


- Based on the above data, some sectors especially led by energy and financials sectors have a positive return amid the weakening of JCI around -5.9%. It's due to the energy sectors have unrelated or less impact of interest rate and financial sectors have a higher margin in the high interest rate condition, in our view. Then, some sectors such as Financials, utilities, and basic materials were leading the recovery of JCI during peaking BI rate period and aligned with market expectation that The Fed will cut rates and BI will follow with cuts in 2024.

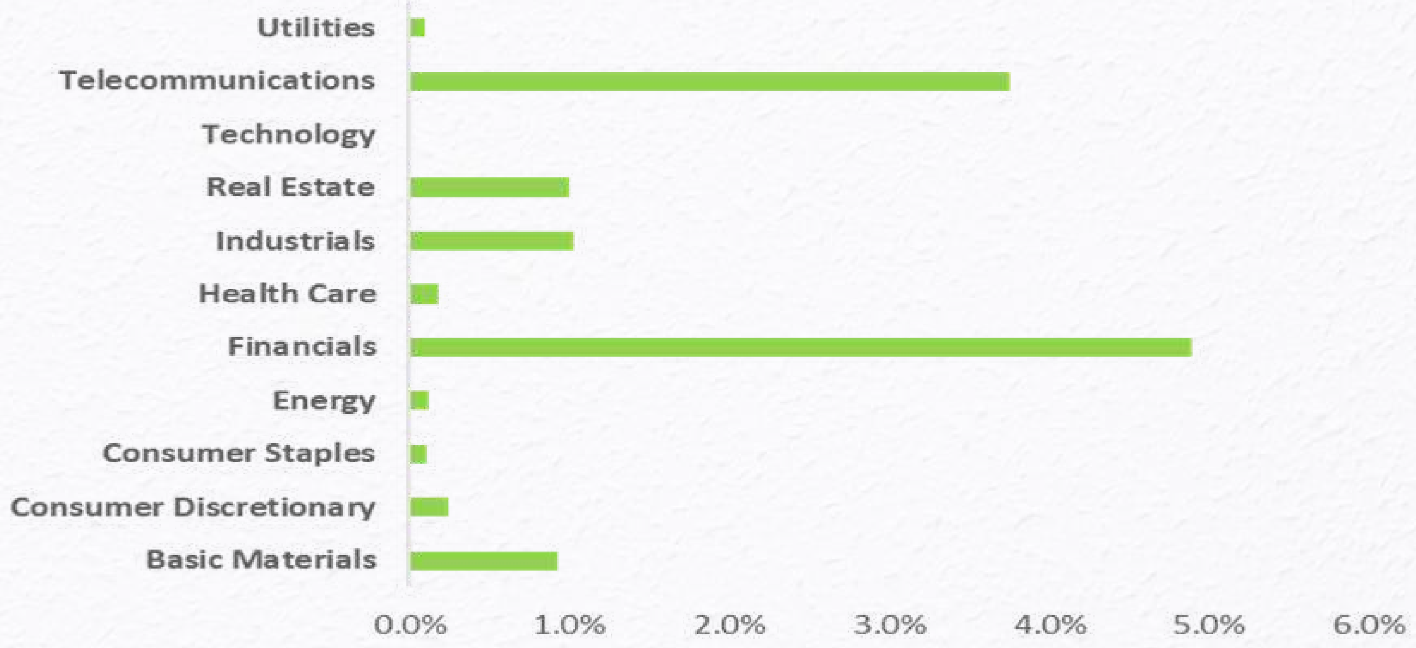
Source: Bloomberg

The Best Performer in Higher BI Rate Regime

Some sectors outperformed during BI tightening in 2018



Almost all sectors still booked positive returns as BI rate peaked in 2019

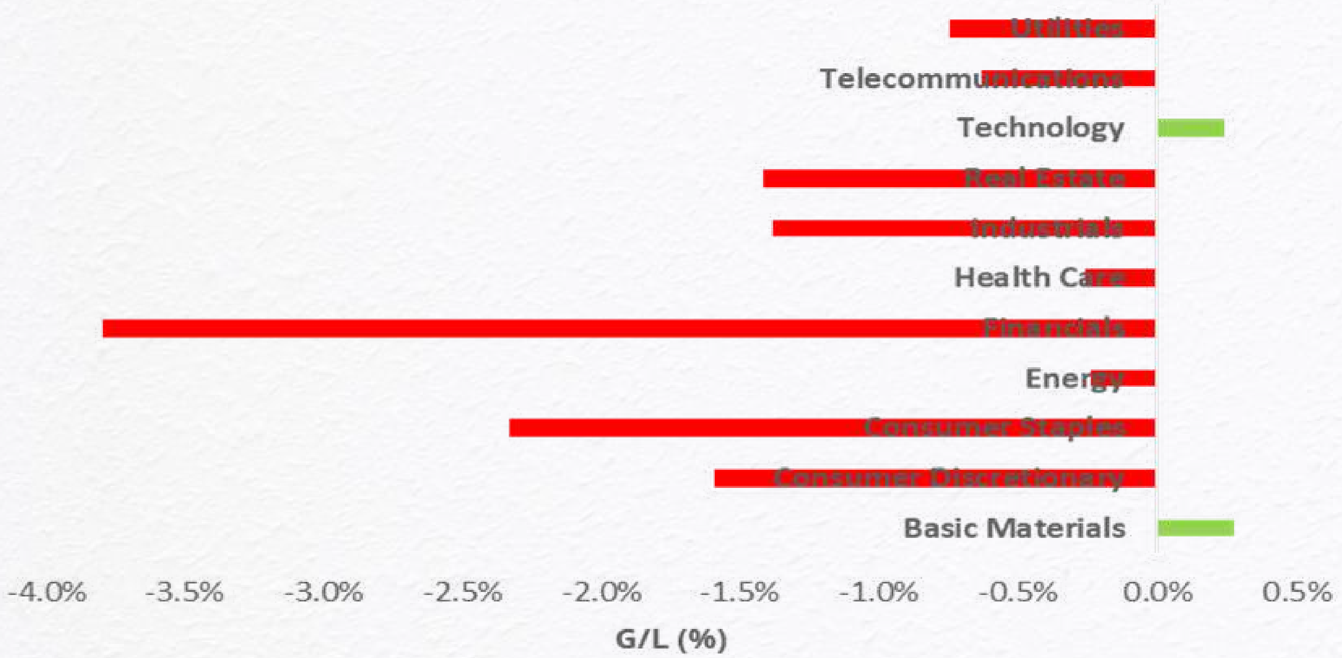


- If we look back in the same cycle in 2018, Financials and energy sector were leading again with a positive return during BI tightening policy in 2018. Furthermore, consumer discretionary sector also has a positive performance led by automotive companies due to 4w wholesales grew +7.4% (yoy) to be 1.2 million units and 2W wholesales grew +8.4% (yoy) to be 6.4 million units in 2018. Then, all of sectors have a positive return led by financials and telecommunication sectors during peaked BI rate in 2019.

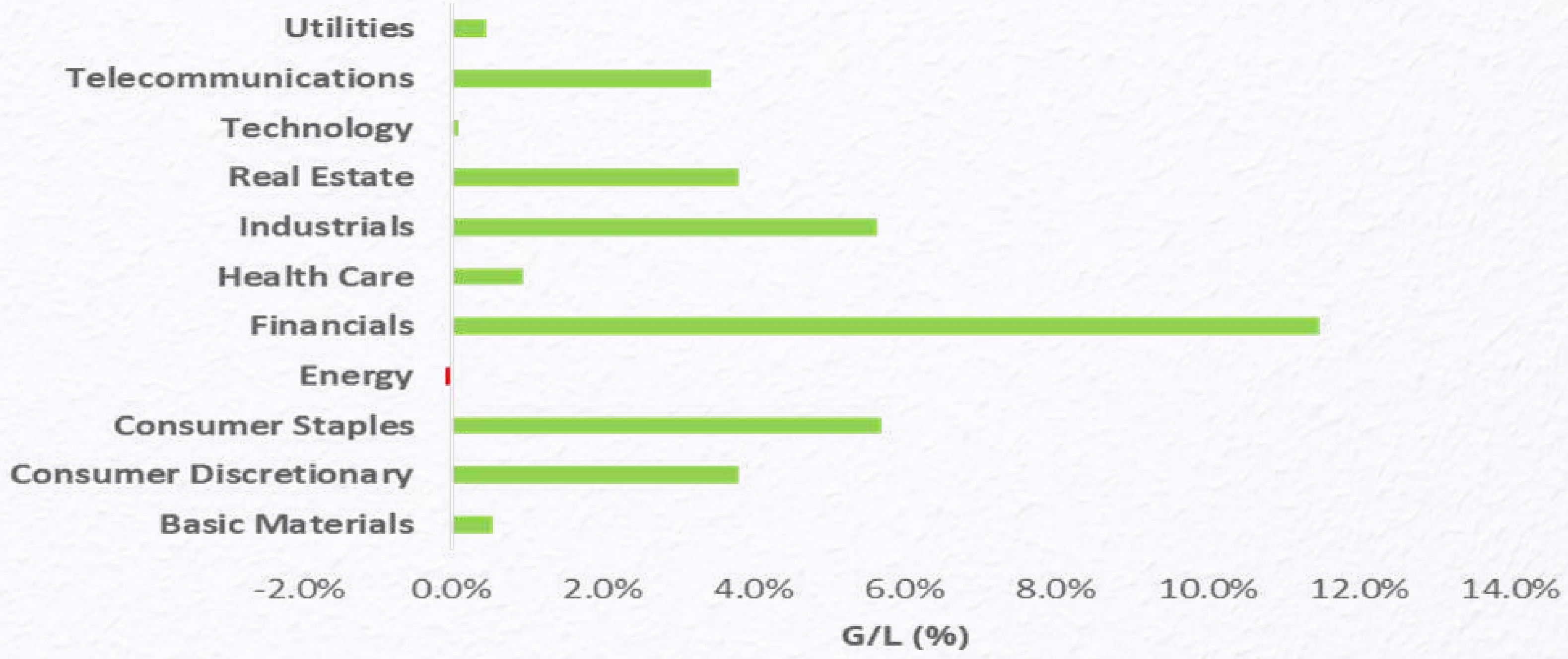
Source: Bloomberg

The Best Performer in Higher BI Rate Regime

Healthcare sector and technology sector outperformed during BI tightening policy in 2013



Majority of sectors still positive during peak BI rate in 2014



- Then same cycle in 2013, showed that only two sectors have a positive return during higher interest policy, namely technology and basic materials. For technology sector, we think that this sector has a strong business model in 2013 with business focus on IT trading and managed service through some software license. Then, basic materials sector have a positive return due to some commodity companies like nickel, metal tin, and aluminum. Finally, almost all sectors supported the JCI’s recovery during peaked rate in 2014 led by financials sectors.

Source: Bloomberg

The Top three sectors in Higher BI Rate Policy

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Some sectors still positive during higher interest rate environment

Year	Aug 22 - Oct 23	Feb 18 - Nov 18	May 13 - Dec 13
Period	18 Months	7 Months	6 Months
BI rate	6% (+ 250 bps)	6% (+175 bps)	7.5% (+175 bps)
JCI performance	-5.94%	-8.20%	-15.67%
Positive Sector			
	Energy	Financials	Technology
	Financials	Consumer Discretionary	Basic Materials
	Consumer Staples	Energy	
	Consumer Discretionary	Technology	
	Health care	Basic Materials	
	Utilities		
	Real Estate		

- Based on the historical data, energy, financial, and consumer discretionary are the sectors that have good positive returns during higher BI rate in three cycles of policy tightening by Bank Indonesia.

Source: Avrist Asset Management

Two Sectors led the JCI recovery during BI Peaked Rate

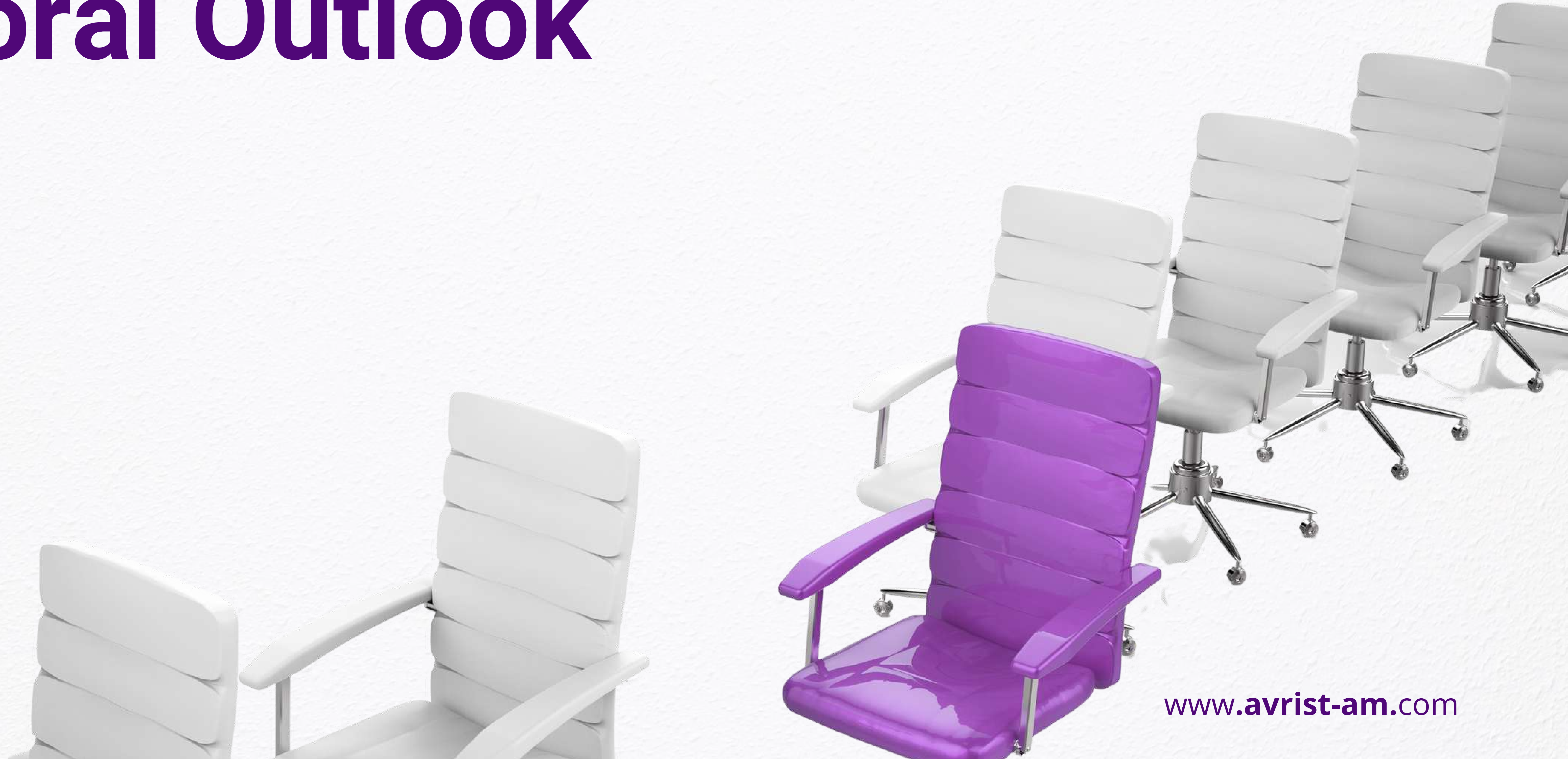
Some sectors still positive during peaked BI rate and poised to rate cut

Year	Oct 23 - Feb 24	Nov 18 - Jun 19	Dec 13 - Jan 15
Sectors lead	Financials	Financials	Financials
	Basic Materials	Telecommunication	Industrials
	Utilities	Industrials	Consumer Staples
	Telecommunication	Real Estate	Real Estate
		Basic Materials	Consumer Discretionary
			Telecommunications

- Based on the historical data, financials and telecommunications sectors always led the JCI's recovery during BI rate peak in three cycles of policy tightening by Bank Indonesia.

Source: Avrist Asset Management

Sectoral Outlook



Retail Sector
Exciting Possibilities and Customer Dynamics

Indonesia's retail sales following CCI Index

Retail Sector Performance

Stocks	Last Px (29 Feb 2024)	Cons Target Price	ROE 2024F (%)	P/E 2024F (x)
ACES IJ Equity	830	910	13%	17.1
AMRT IJ Equity	2700	3800	26%	29
MIDI IJ Equity	444	600	18%	19.7
RALS IJ Equity	500	440	9%	10.3
MAPI IJ Equity	1935	3140	23%	12.7
MAPA IJ Equity	1085	1320	28%	15.6
ERAA IJ Equity	480	540	13%	7
Weighted Average			29%	22

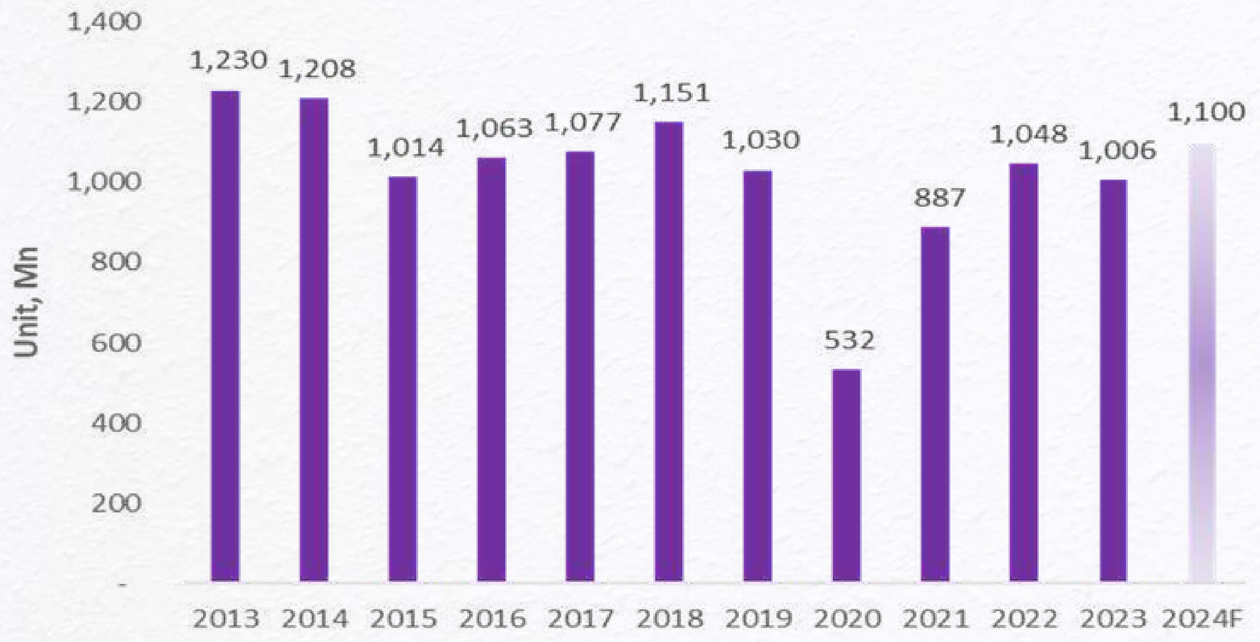
- In comparison to the previous year (1H24 presidential election and 2H24 local leader elections), we anticipate a slight improvement in consumption for 2024F because we believe that the government and political leaders will provide more incentives close to the election dates and guarantee a more seamless disbursement. At the same time, this may cause rice prices to decline as the harvest season begins in March.

- We believe that social media has a significant impact on consumers' decision-making when making purchases. These present trends will benefit the following industries: Experience goods (makeup and fashion) with a strong positioning → MAPA and MAPI; FMCG with a "the cheaper, the better" mentality → ICBP and MYOR; and network domination and convenience → MIDI and AMRT.

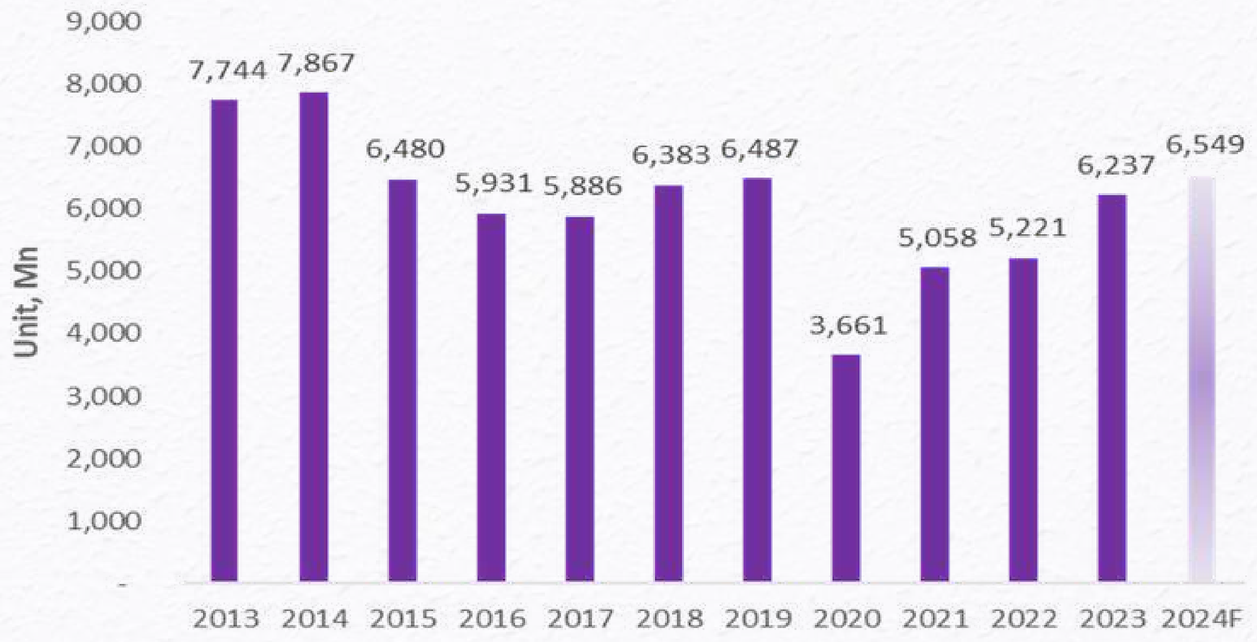
Source: Bloomberg, Verdhana

Automotive Sector
Selective Amid Attractive Valuation

4W wholesales decreased around -4.0% (YoY) in 2023



2W wholesales significantly increased around +19.4% (YoY) in 2023



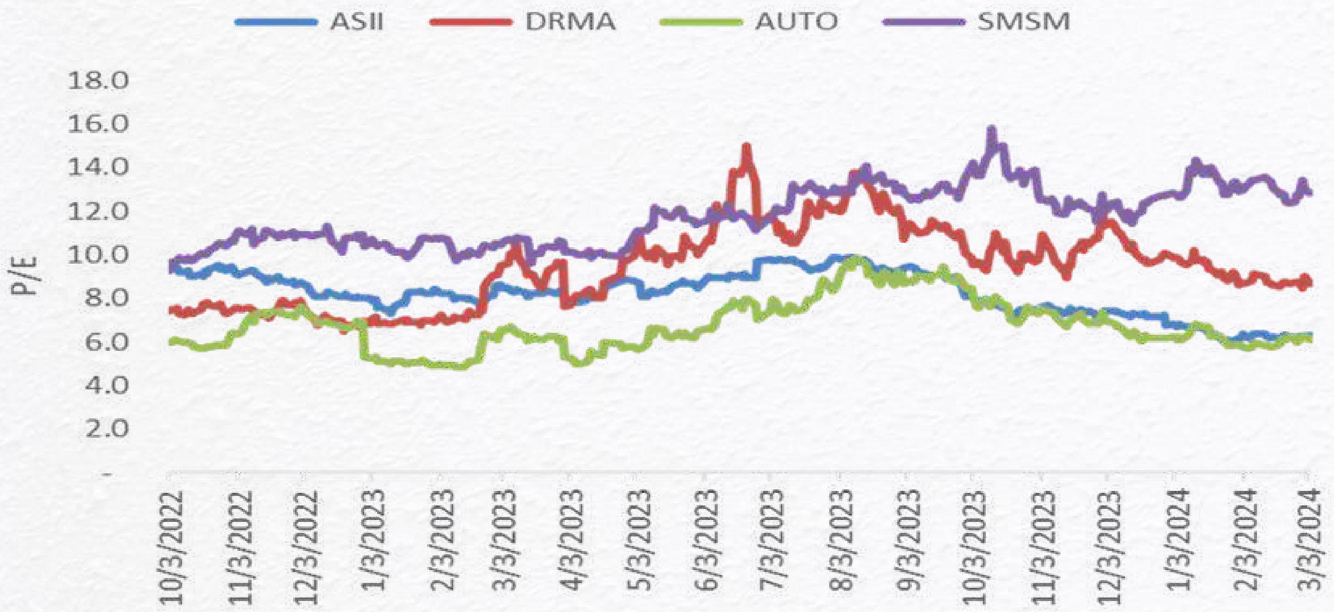
- GAIKINDO projected that 4W wholesale can grow around +9.3% to 1.1 million unit in 2024F. While AISI has a single digit growth +4.2% (YoY) for 2W in 2024F.

Source: Bloomberg

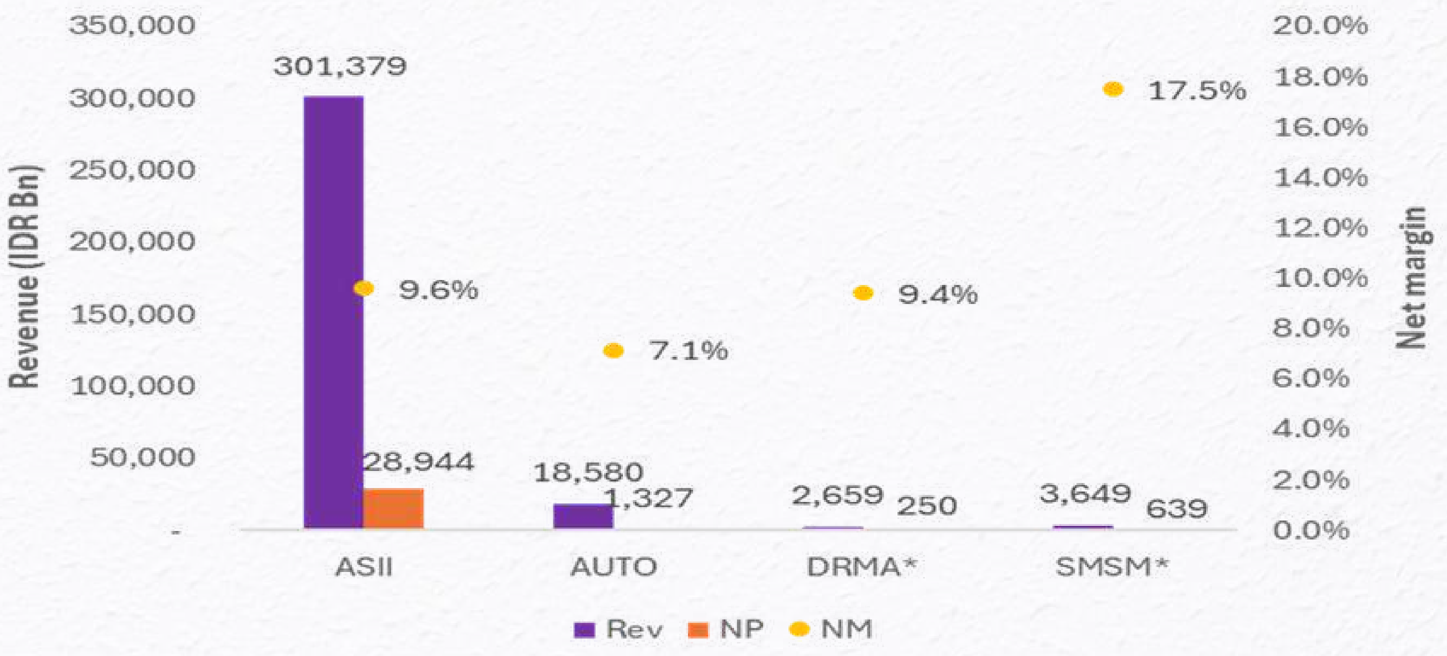
Automotive Sector
Selective Amid Attractive Valuation

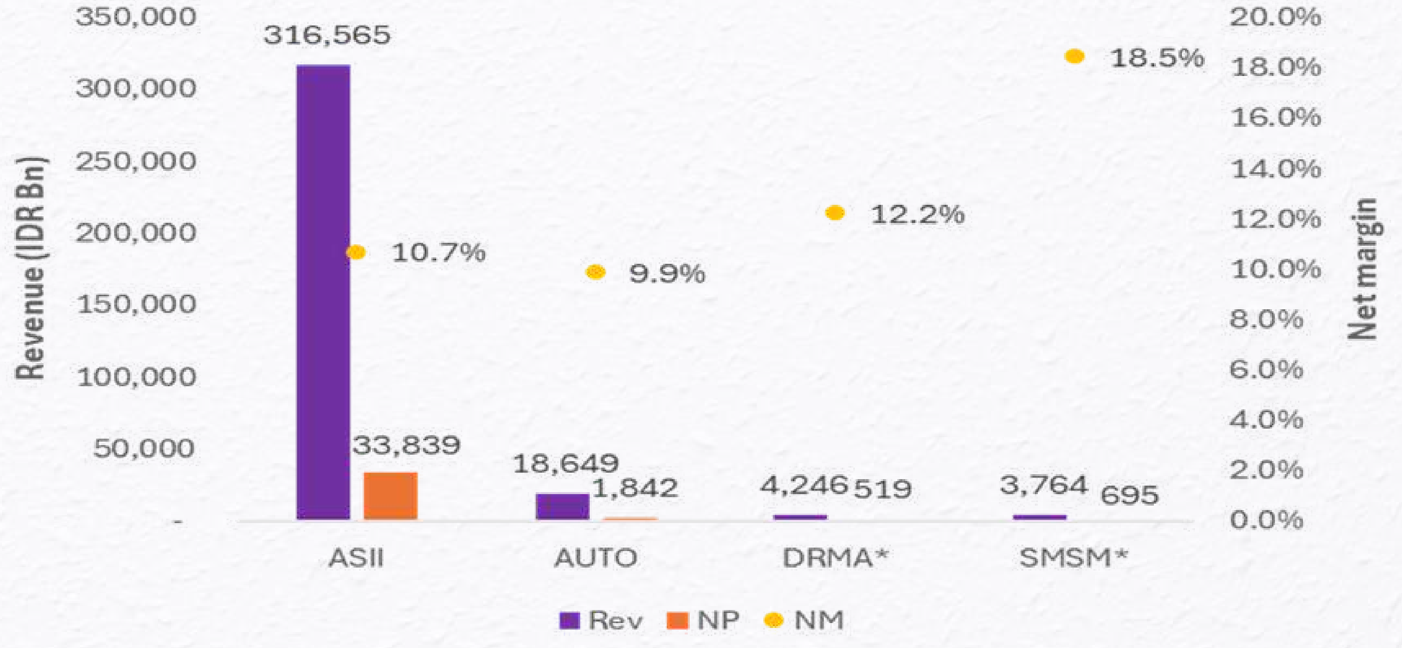
- Auto companies have recorded an improvement especially in profitability aspect. Furthermore, we see that some companies have attractive valuation.

Attractive valuation from some auto players



Auto players performance in 2022 (above) and 2023 (below)





Source: Companies, Bloomberg

Summary
We are Positive on JCI Index

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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 • Positive view about the growth of 2W and 4W in 2024F	• Crowded competition in the automotive industry
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	• 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 • Given the impending fasting season and Lebaran event, we expect the competition in Jakarta to stay intense and that obstacles will arise for ASP growth of bagged cement until 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.

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	• China's economic data still relatively weak • ESG risks
Con-sumer Staples	Over-weight	• The price of essential raw materials, such as wheat and CPO, has remained steady. • 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

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	• 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

Source: Bloomberg, Companies, Avrist Asset Management

Summary
We are Positive on JCI Index

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Sector	Rating	Thesis	Catalysts	Risks
Health-care	Over-weight	• 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
Metal	Over-weight	• 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 • Shrinking US oil stockpiles	• 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.	• Still low mortgage rate • Purchasing power improvement and structural end user demand	• Pressure from higher bond yields • Oversupply in several categories such as apartments

Source: Bloomberg, Companies, Avrist Asset Management

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Summary
We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Retail	Over-weight	• 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
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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