

Remain positive on fundamentals

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1Q23 results review. Most companies under our coverage have released their 1Q23 results, with aggregate net profit growth of 14.4% YoY and 41.2% QoQ. Of the 72 companies, 28% booked in-line 1Q23 results, 26% above, and 46% fell short of estimates. A big chunk of the growth was contributed by the banking sector (+30.3% YoY), which experienced a solid quarter, driven by accelerating loan growth, lower provisions, and manageable NIM despite the increase in TD rates prior to Ramadan/Eid-al-Fitr. Consumer staples (+39.1% YoY) players also experienced a strong quarter with better margins, supported by aggressive ASP hikes and the drop in wheat and CPO prices. Cigarette companies also posted robust earnings in 1Q23 (+37.8% YoY), mainly due to higher ASP and lower production costs. Meanwhile, the oil and gas sector (-6.9% YoY), poultry sector (-101.6% YoY), plantation sector (-67% YoY), and media sector (-67.3% YoY) dragged down the aggregate net profit.

Stable macro environment. We might see some improvements in Indonesia's economic condition in 2H23 thanks to domestic demand (partly due to election-related spending). Despite the drop in commodity prices, which we believe will provide less support toward Indonesia's current account and possibly turn the current account surplus (1.5% of GDP for FY22) into a deficit (-0.1% of GDP for FY23) amid the decline in external demand, we expect inflation to continue its downward trend in 2H23 and settle at 2.8% yoy by the end of 2023. In 1Q23, rupiah appreciated by 3.4% to IDR 14,995 per USD, driven by massive foreign capital inflows, particularly into the bond market. Considering this development, we see an opportunity for Bank Indonesia to begin its rate-cut cycle in 2H23. The size of BI rate cuts will depend on global factors, specifically the Fed's future monetary policy.

Overweight for banks, consumer staples, and telco players.

Considering the better macroeconomic outlook, we maintain our view for a more favorable equity outlook in 2H23, supported by foreign investors as well as local funds, as interest rates are likely to have peaked and the fact that JCI is currently trading at an attractive 13.1x forward P/E (below -1.5sd). At the moment, we believe banking, telco, and consumer sectors will remain the main driver of JCI's earnings growth in 2023. We are optimistic that Indonesian banks' margins will improve in the upcoming quarters, as some banks still have abundant liquidity and were able to limit the decline of their margins to a mere 20bps QoQ despite their decision to increase TD rates prior to Ramadan/Eid-al-Fitr. We expect our consumer staples universe to book positive growth through the rest of the year, supported by economic growth, higher minimum wages, election momentum, and excellent expansion strategies. Three of the five consumer staples companies in our universe (ICBP, KLBF, and SIDO) are projected to book double-digit growth this year. For the telco sector, we see potential positive catalysts from the trickle-down effect in 2H23 from the election, as well as more mature competition in the industry.

Maintain our JCI target at 7,600. Post-1Q23 results, we project JCI earnings to grow by 7.7% in 2023F. Based on our earnings forecast, our fundamental base case scenario index target for 2023F is 7,600, with a P/E of 15.0x. Strong bond inflows of IDR 59.4tn YTD have lifted rupiah to IDR 14,800 (vs. IDR 15,600 at the end of FY22) as well as bond yield to 6.5% (vs. 7.1% at the end of FY22), which we believe might help to increase the value to the equity over the long run, as Indonesia is perceived as a 'safe haven' amid rising global macro volatility, on defensive domestic household consumption. It is worth highlighting that we include TOWR to our portfolio as we remain optimistic about the long-term prospect for the telco tower industry, and TOWR is the tower player that is most ready to cater to the demand for fiber optic network going forward.

Table 1. 12-month top picks

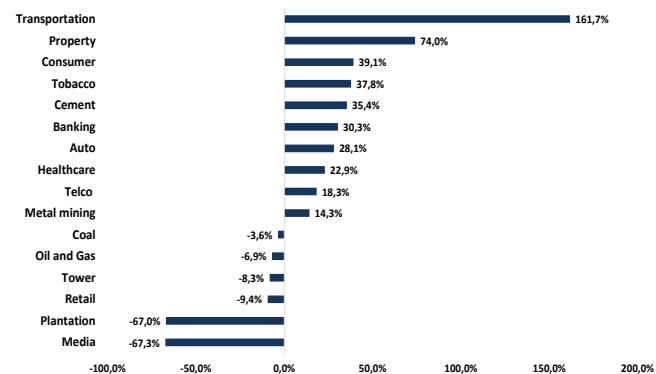
Ticker	Recommendation	CP IDR	TP IDR	Upside %	Net Profit Growth (%)		ROE (%)		ROA (%)	
					23F	24F	23F	24F	23F	24F
BBNI	BUY	8,750	12,700	45%	19.4%	10.1%	15.0	14.5	2.1	2.1
BBRI	BUY	5,200	6,200	19%	10.5%	11.3%	18.2	18.7	3.0	3.2
ISAT	BUY	7,425	10,500	41%	-60.6%	27.0%	5.8	7.1	1.6	2.0
TOWR	BUY	960	1,310	36%	7.4%	15.3%	23.5	23.1	5.5	6.2
NCKL	BUY	1,010	2,000	98%	97.84%	18.17%	38.4	27.0	25.8	21.9
DRMA	BUY	1,040	1,300	25%	38.8%	12.1%	29.7	26.3	15.8	15.4
RAJA	BUY	1,065	1,500	41%	104.5%	11.1%	11.5	10.1	6.2	5.8
ICBP	BUY	11,000	13,000	18%	13.3%	12.8%	19.1	18.9	6.7	7.1

Source: SSI Research

1Q23 results review

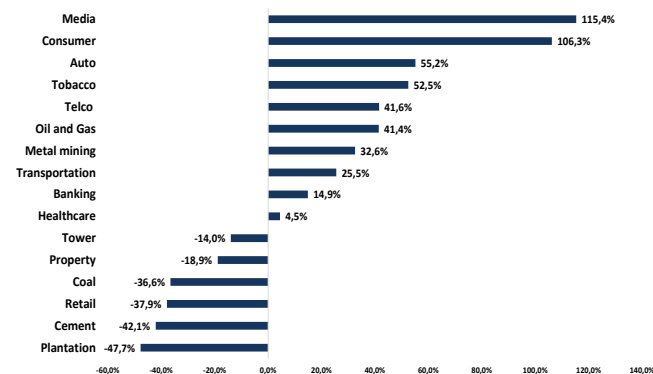
Most companies under our coverage have released their 1Q23 results, with aggregate net profit growth of 14.4% YoY and 41.2% QoQ. Of the 72 companies, 28% booked in-line 1Q23 results, 26% above, and 46% fell short of estimates. A big chunk of the growth was contributed by the banking sector (+30.3% YoY), which experienced a solid quarter, driven by accelerating loan growth, lower provisions, and manageable NIM despite the increase in TD rates prior to Ramadan/Eid-al-Fitr. Consumer staples (+39.1% YoY) players also experienced a strong quarter with better margins, supported by aggressive ASP hikes and the drop in wheat and CPO prices. Cigarette companies also posted robust earnings in 1Q23 (+37.8% YoY), mainly due to higher ASP and lower production costs. Meanwhile, the oil and gas sector (-6.9% YoY), poultry sector (-101.6% YoY), plantation sector (-67% YoY), and media sector (-67.3% YoY) dragged down the aggregate net profit.

Figure 1. SSI's sectoral coverage 1Q23 YoY growth



Source: Bloomberg, SSI Research, Companies

Figure 2. SSI's sectoral coverage 1Q23 QoQ growth

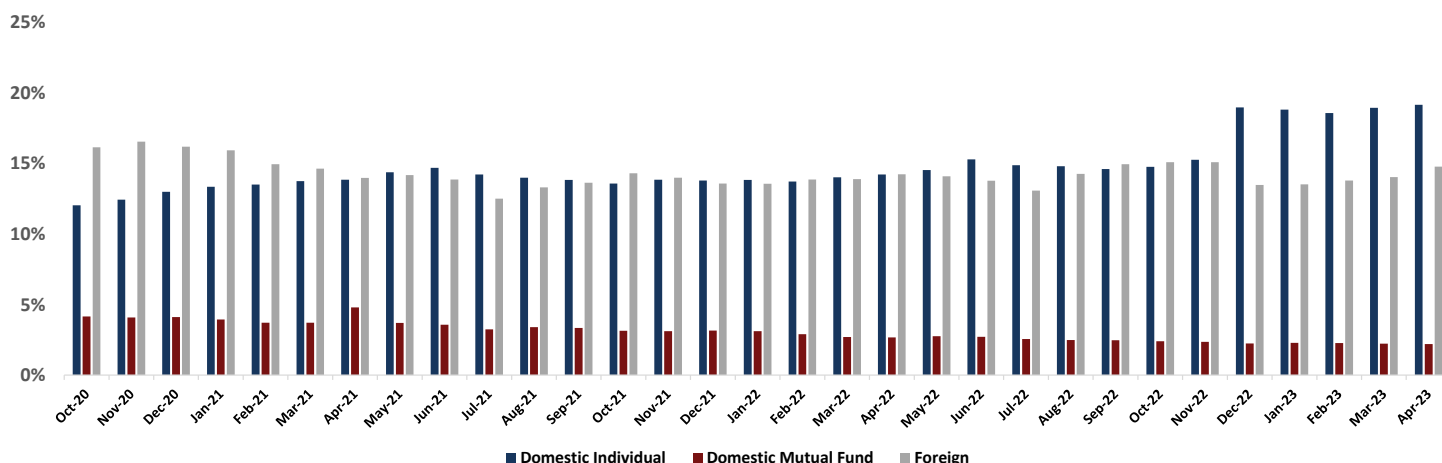


Source: Bloomberg, SSI Research, Companies

More favorable outlook going forward

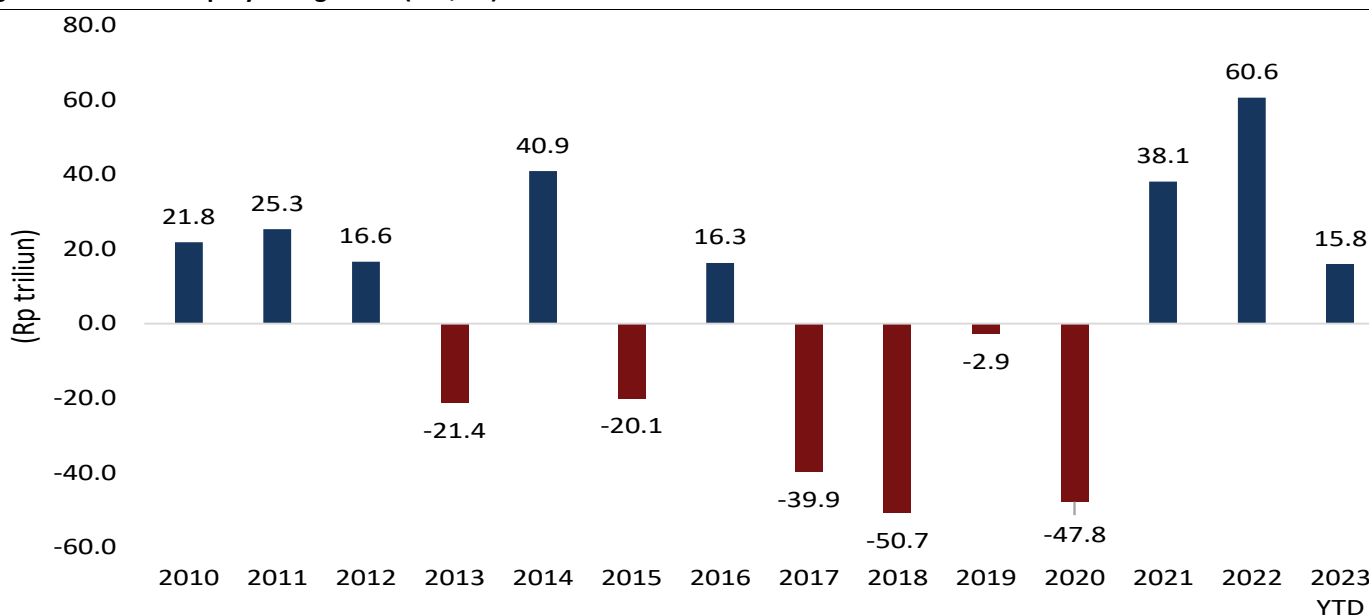
JCI has shown resiliency thus far this year, despite the recent foreign capital outflow (IDR 1.8tn MTD). Foreign investors' positioning remains OW in Indonesia, particularly in the banking sector, and they started to enter the telco and metal mining sectors in 1Q23. We maintain our view for a more favorable outlook in 2H23, as foreign investors will continue to re-enter the equity side, supported by the improvement in Indonesia's economic growth, driven primarily by domestic demand (partially due to election-related spending) amid global macro volatility. In addition, we believe that The Fed may re-evaluate its hawkish stance by reversing its monetary policy in 2H23. We believe that foreign investors won't be the only ones who will drive the market going forward, and local funds will also play a big part, as interest rates are likely to have peaked and JCI is currently trading at an attractive 13.1x forward P/E (below -1.5sd).

Figure 3. Domestic and foreign ownership in JCI



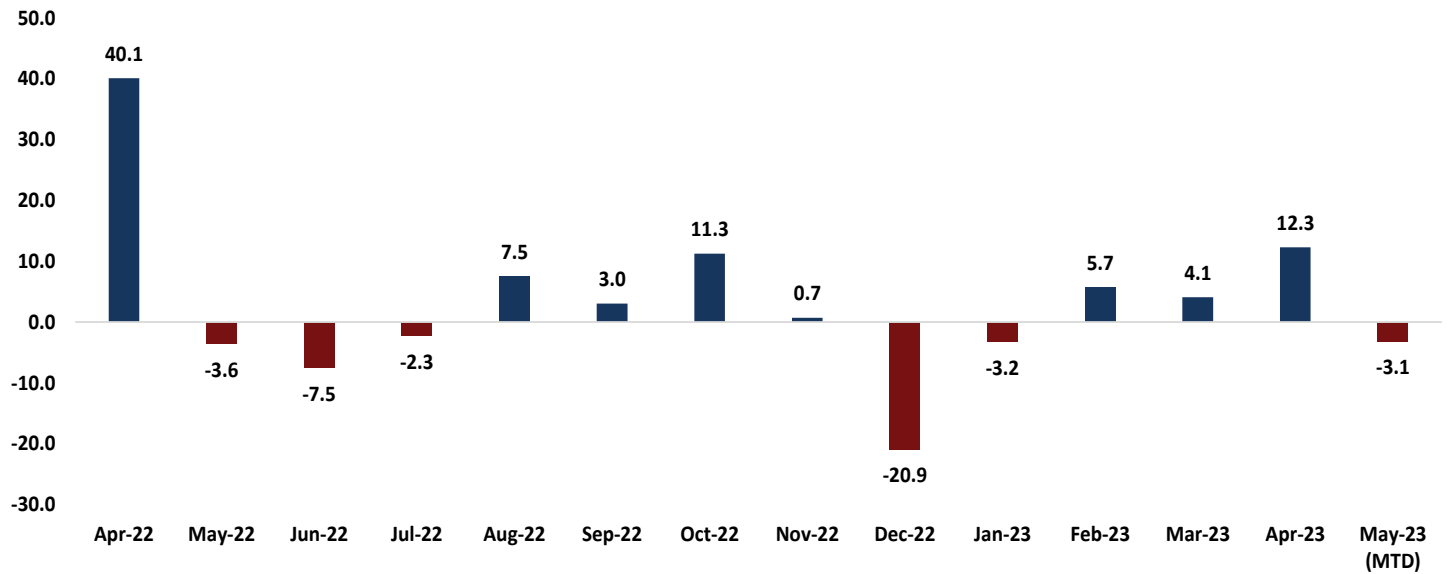
Source: KSEI, SSI Research

Figure 4. Domestic equity foreign flow (IDR, Tn)



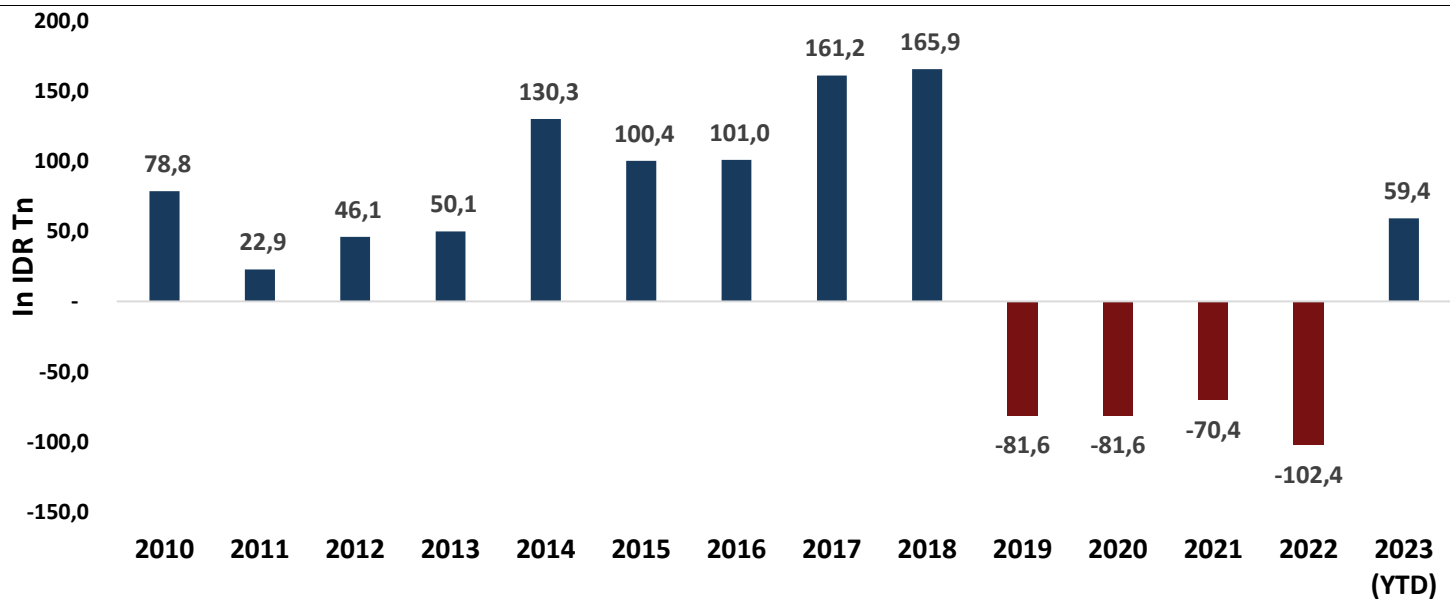
Source: Bloomberg, SSI Research

Figure 5. Domestic monthly equity foreign flow 4M23 (IDR, Tn)



Source: Bloomberg, SSI Research

Figure 6. Domestic monthly bond flow (IDR, Tn)



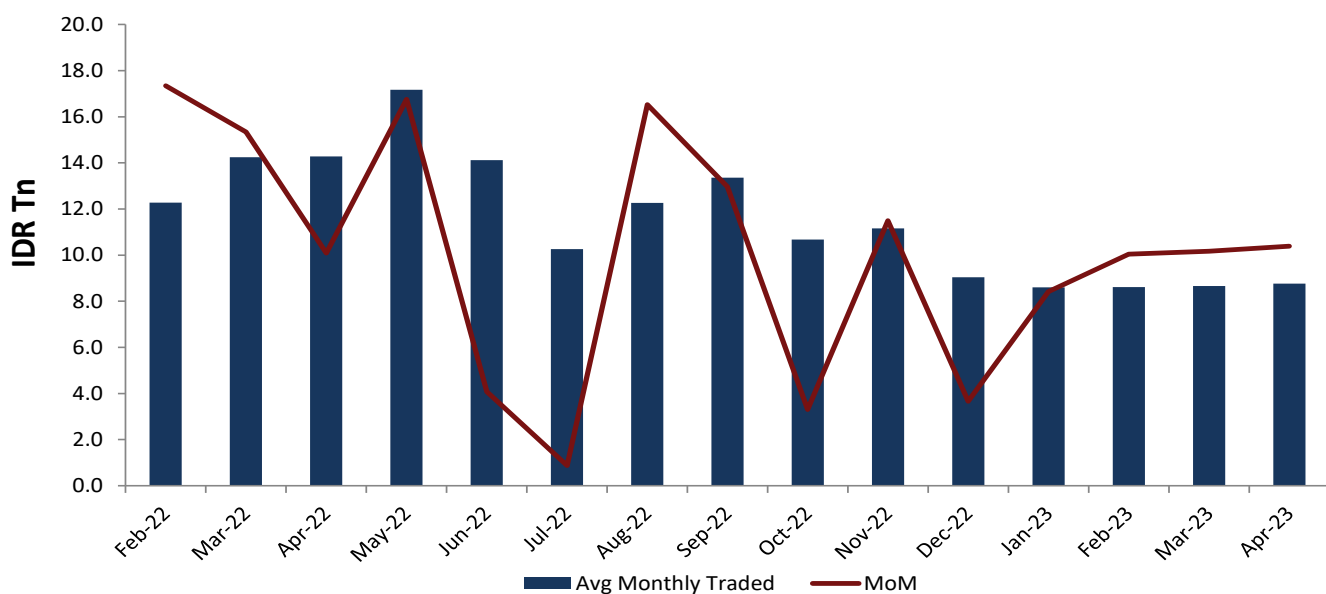
Source: Bloomberg, SSI Research

Table 2. Sectoral distribution of foreign ownership

Sector	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	Apr-23	
Bank	34%	34%	34%	35%	34%	34%	34%	34%	35%	35%	35%
Digital banks	0%	0%	1%	1%	1%	1%	1%	1%	1%	1%	0%
Consumer Staples	16%	17%	17%	19%	19%	21%	22%	23%	23%	24%	24%
Cigarette	15%	15%	14%	13%	14%	13%	13%	12%	11%	10%	10%
Healthcare	4%	5%	5%	5%	5%	5%	5%	4%	4%	4%	4%
Poultry	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Retail	20%	20%	20%	20%	19%	18%	17%	16%	14%	14%	14%
Pulp and Paper	7%	7%	6%	6%	6%	6%	6%	6%	6%	6%	7%
Media	8%	8%	8%	8%	9%	9%	9%	8%	8%	8%	7%
Telco	19%	17%	13%	14%	14%	15%	15%	15%	15%	15%	16%
Telco Infra	18%	17%	16%	16%	15%	15%	15%	13%	12%	12%	12%
Auto	40%	38%	39%	32%	12%	13%	14%	14%	14%	14%	14%
Mining Contracting	32%	34%	34%	37%	38%	41%	40%	38%	38%	38%	38%
Property	11%	11%	10%	10%	11%	12%	12%	12%	12%	12%	12%
Industrial estate	6%	6%	5%	6%	6%	5%	4%	4%	4%	4%	4%
Construction	7%	7%	6%	6%	6%	7%	7%	7%	8%	7%	7%
Cement	24%	24%	24%	23%	21%	21%	20%	20%	20%	20%	20%
Precast	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Oil and Gas	10%	10%	10%	10%	10%	11%	11%	11%	11%	11%	11%
Chemical	2%	2%	2%	2%	2%	2%	3%	3%	2%	2%	2%
Utilities	18%	17%	17%	17%	16%	16%	16%	17%	20%	20%	20%
Metal	6%	6%	7%	7%	7%	9%	9%	9%	9%	9%	10%
Coal	11%	12%	11%	11%	12%	11%	12%	11%	12%	12%	12%
Plantation	5%	4%	5%	5%	6%	7%	8%	7%	7%	6%	6%
Technology	1%	1%	3%	3%	3%	3%	3%	3%	4%	4%	4%

Source: KSEI, SSI Research

Figure 7. Average daily trading value 3M23



Source: Bloomberg, SSI Research

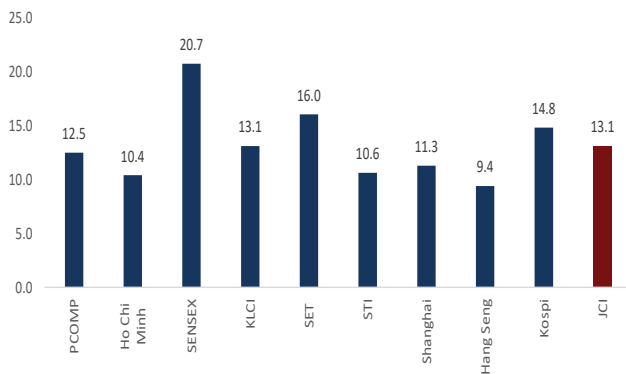
Expect Bank Indonesia and Fed pivots in 2H23. We might see some improvements in Indonesia's economic condition in 2H23 thanks to domestic demand (partly due to election-related spending). Despite the drop in commodity prices, which we believe will provide less support toward Indonesia's current account and possibly turn the current account surplus (1.5% of GDP for FY22) into a deficit (-0.1% of GDP for FY23) amid the decline in external demand, we expect inflation to continue its downward trend in 2H23 and settle at 2.8% yoy by the end of 2023. In 1Q23, rupiah appreciated by 3.4% to IDR 14,995 per USD, driven by massive foreign capital inflows, particularly into the bond market. Considering this development, we see an opportunity for Bank Indonesia to begin its rate-cut cycle in 2H23. The size of BI rate cuts will depend on global factors, specifically the Federal Reserve's future monetary policy.

Figure 8. SSI macro forecast table

Indicators (% yoy)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23F	3Q23F	4Q23F	FY21	FY22	FY23F
Real GDP (NSA % qoq)	(0,9)	3,3	1,5	1,1	(1,0)	3,7	1,8	4,0	(0,9)	3,4	1,7	0,6			
Real GDP	(0,7)	7,1	3,5	5,0	5,0	5,4	5,7	5,0	5,0	4,6	4,5	4,7	3,7	5,3	4,7
Unemployment rate (% nsa)	6,3	6,3	6,5	6,5	5,8	5,8	5,9	5,9	5,5	5,5	5,4	5,3	6,5	5,9	5,3
Consumer price	1,4	1,3	1,6	1,9	2,6	4,4	6,0	5,5	5,0	3,8	2,6	2,8	1,9	5,5	2,8
Current account balance (% to GDP)	(0,4)	(0,7)	1,7	0,5	0,2	1,2	1,3	1,3	1,0F	0,7	0,3	(0,1)	0,5	1,3	(0,1)
Fiscal balance (% to GDP)	(0,8)	(1,7)	(2,7)	(4,6)	0,1	0,4	0,3	(2,4)	0,6	(1,1)	(1,8)	(2,8)	(4,6)	(2,4)	(2,8)
Policy rate, 7 day reverse repo rate (%)	3,50	3,50	3,50	3,50	3,50	3,50	4,25	5,50	5,75	5,75	5,25	4,75	3,75	5,50	4,75
10-year government bond yield (%)	6,78	6,59	6,26	6,38	6,74	7,22	7,37	6,94	6,79	6,40	6,20	6,00	6,38	6,94	6,00
Exchange rate (USD/IDR)	14.525	14.500	14.313	14.253	14.369	14.898	15.228	15.568	14.995	14.600	14.700	14.900	14.253	15.568	14.900

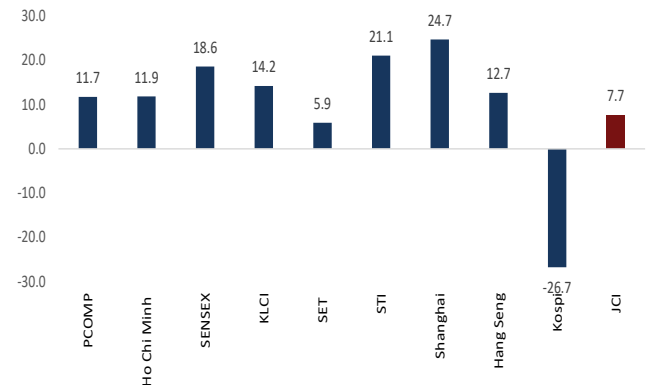
Source: Bloomberg, SSI Research

Figure 9. JCI's PE vs. Peers



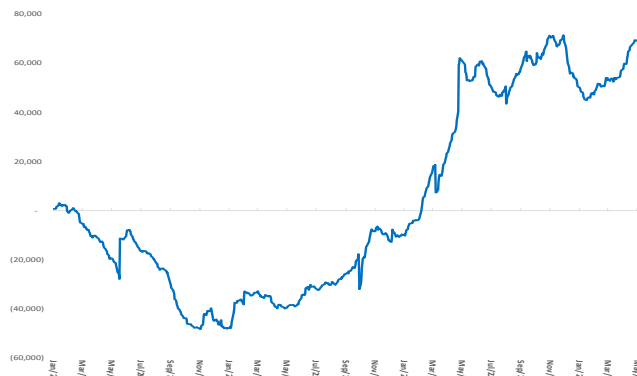
Source: Bloomberg, SSI Research

Figure 10. JCI's EPS growth vs. Peers



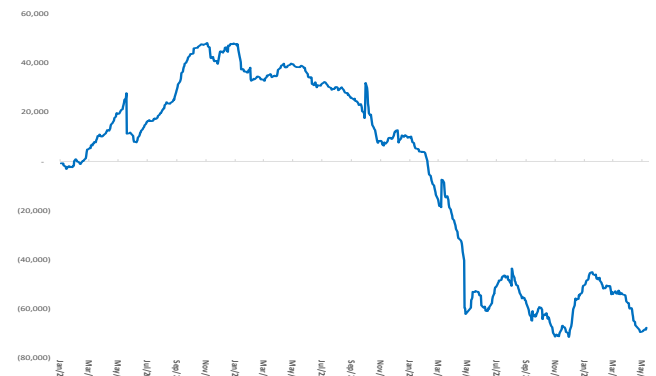
Source: Bloomberg, SSI Research

Figure 11. Foreign flow to JCI



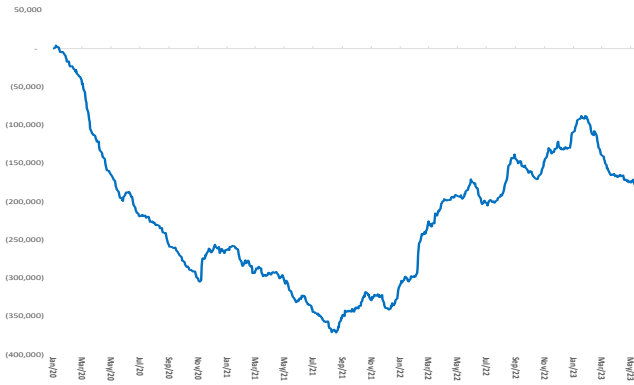
Source: Bloomberg, SSI Research

Figure 12. Domestic flow to JCI



Source: Bloomberg, SSI Research

Figure 13. Foreign flow to Thailand



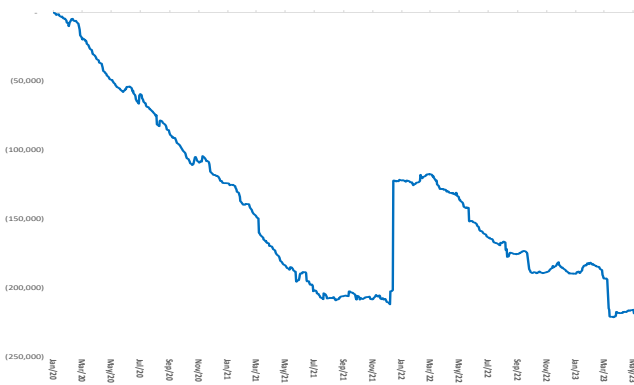
Source: Bloomberg, SSI Research

Figure 14. Foreign flow to South Korea



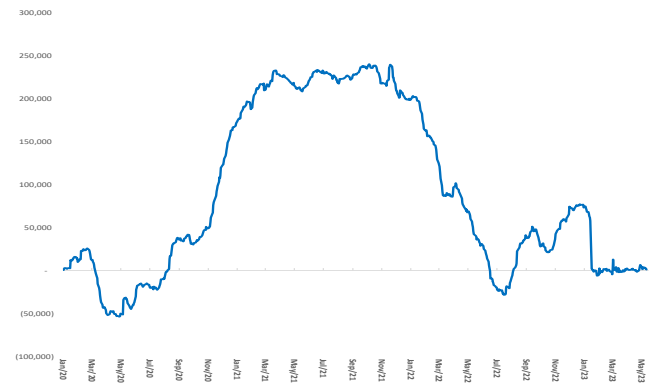
Source Bloomberg, SSI Research

Figure 15. Foreign flow to the Philippines



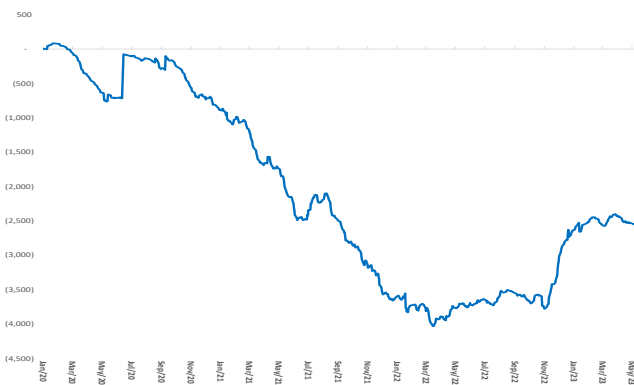
Source: Bloomberg, SSI Research

Figure 16. Foreign flow to India



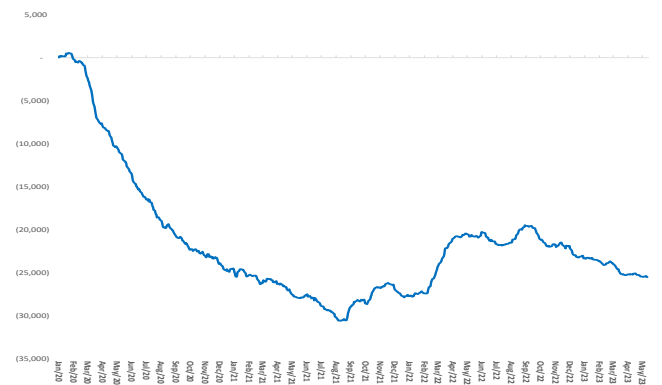
Source Bloomberg, SSI Research

Figure 17. Foreign flow to Vietnam



Source: Bloomberg, SSI Research

Figure 18. Foreign flow to Malaysia



Source Bloomberg, SSI Research

Market Update May 2023

Strategy Report

17 May 2023

JCI Index: 6,677

Table 3. JCI vs developed market

NAME	2017 % yoy	2018 % yoy	2019 % yoy	2020 % yoy	2021 % yoy	2022 % yoy	2023 %YTD
S&P 500 Index	18.9	-7.5	29.6	15.2	27.9	-19.7	7.5
Nasdaq Composite Index	27.1	-5.3	35.9	42.9	22.0	-33.5	18.8
Taiwan Taix Index	16.3	-8.0	23.9	21.5	25.8	-22.4	11.5
Dow Jones Indus Avg	24.7	-7.1	23.4	6.2	19.7	-8.9	-0.4
FTSE 100 Index	8.0	-11.7	12.7	-14.2	12.1	0.7	2.6
KOSPI INDEX	21.9	-17.3	7.7	30.4	6.0	-25.3	12.4
NIKKEI 225	18.9	-12.2	18.2	15.1	7.2	-9.4	16.9
SHANGAI SE COMPOSITE	6.8	-24.3	21.9	13.6	6.5	-14.6	5.4
MSCI ASIA EX JAPAN	39.7	-16.4	16.3	21.8	-4.0	-20.9	0.8
FTSE MALAYSIA	9.7	-4.9	-4.5	2.1	-6.1	-3.1	-3.3
HANGSENG INDEX	37.3	-14.6	11.0	-3.8	-12.2	-14.4	-1.4
JCI INDEX	19.9	-1.9	1.7	-5.5	8.0	4.1	-2.5

Source: Bloomberg, SSI Research

Table 4. JCI and sectoral performance

Index	DoD	WoW	MoM	YoY	YTD
JCI	-0.5	-1.5	-2.1	1.2	-2.5
LQ45	-0.6	-1.1	-2.2	-6.6	-0.6
IDXFİN	-0.7	-1.2	-2.6	-7.0	-3.9
IDXBASIC	-1.6	-5.6	-8.9	-19.1	-13.3
IDXNCYC	-0.2	1.0	4.5	9.9	3.0
IDXENER	-1.2	-4.5	-7.6	18.4	-17.2
IDXINFRA	-1.0	-1.6	0.3	-14.4	-6.6
IDXCYC	-0.9	0.5	4.3	-6.5	-0.7
IDXTECH	-1.3	-2.2	0.0	-31.1	-6.3
IDXHLTH	0.4	1.8	-1.1	3.6	-2.7
IDXPROP	-0.8	-1.5	4.4	3.2	1.5
IDXINDUS	-0.2	0.3	-2.1	-5.4	-0.6
IDXTRANS	-2.1	-1.0	4.2	-6.0	10.0

Source: Bloomberg, SSI Research

Table 5. JCI Target Scenario

	Bear	Base	Bull	
Earnings growth (%)		2.7	7.7	12.7
5 years average JCI index P/E		22.1	22.1	22.1
Fair P/E multiple		15.0	15.0	15.0
EPS 2023		501.3	511.6	590.9
Fair index target		7500	7600	8900

Source: Bloomberg, SSI Research

Figure 19. JCI's 5-year PE band



Source: Bloomberg, SSI Research

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