

Equity can potentially grind higher

Prasetya Gunadi
+62 21 2854 8320
prasetya.gunadi@samuel.co.id

Samuel Research Team
+62 21 2854 8148
riset@samuel.co.id

Less volatility in 2H23. The net sell trend on the Indonesian stock exchange has not altered in June-23, with total foreign outflows MTD reaching IDR 3.7tn. However, we expect foreign fund flows to return to the equity side in 2H23 since we believe that external factors will stabilize and interest rates have reached their peak. The Fed may even decide to cut its FFR in the coming months, thereby increasing the likelihood that investors will reinvest and rebuild their portfolios. Amid fears of a global recession, we believe Indonesia could be one of the most popular emerging market investment destinations due to its domestically driven economy, which makes it relatively resilient. Additionally, election-related spending will contribute to Indonesia's economic expansion in 2H23.

Local funds to support JCI. Not only foreign flow, we expect local funds to support our index in 2H23. We believe local funds will eventually deploy more cash, with many believing interest rates have peaked and that JCI is trading at an attractive 13.1x forward P/E (below -1.5sd). According to data from the Financial Services Authority (OJK), local equity funds have a high cash level of 14.3% as of May 23; though lower than the previous month's level of 16.6%, it is still higher than the 10-year average of 10.2%.

Impact of China's monetary policy. The People's Bank of China has recently decided to cut its policy rate by -10 basis points to 2.65% for the 1Y medium-term lending facility rate, 3.55% for the 1Y loan prime rate, and 4.2% for the 5Y loan prime rate, and it plans to extend the 10% value-added tax exemption for electric vehicles, which was originally set to expire in 2023, in an effort to stimulate economic growth. In our opinion, the economic impact of reopening has been quite mixed, but we continue to anticipate a robust recovery. We expect that improving income growth and pent-up demand for activities that were restricted during COVID lockdowns will continue to support growth in 2H23. Given the reasonable valuation, and mid-teens average earnings growth for the stocks in China, there is a risk of foreign flow coming to China. However, it will have a positive effect on Indonesia's trade balances, particularly with regard to our commodity export. If China can maintain a GDP growth rate of 5.5% in 2023, we believe Indonesia's current account deficit will remain under control at -0.1% of GDP.

Overweight for banks, consumer staples, and telco players. We do not change our view and still prefer stocks with strong growth momentum. 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. Also, 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.

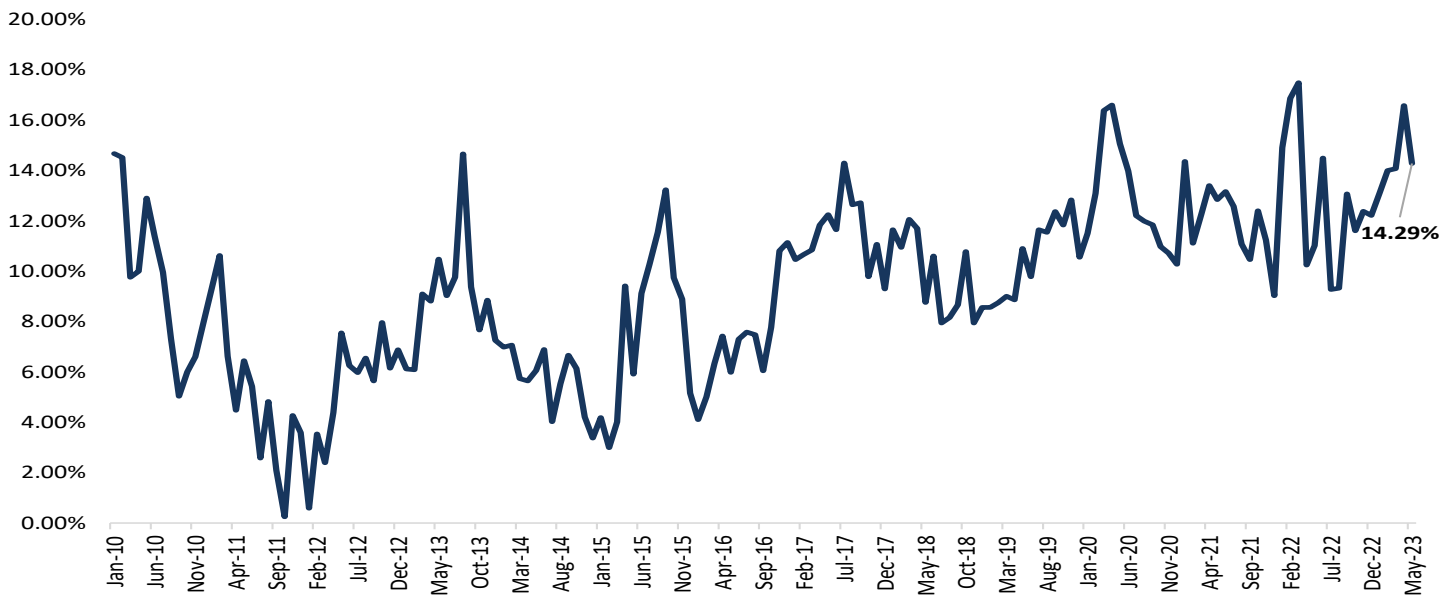
Maintain our JCI target at 7,600. We maintain our earnings forecast in this report, keeping our fundamental base case scenario index target for 2023F at 7,600 with a P/E of 15.0x. We make no change to our top picks for 2H23, but we believe that the LQ45 rebalancing (Aug-Jan), which will be announced by the end of Jul-23, might provide short-term catalysts for some stocks. Based on our screening, which includes free-float adjusted market capitalization, average daily trading value (ADTV), and trading frequency, we pick BUMI and ADMR as the potential newcomers in LQ45, and JPFA and TINS as the "relegation candidates".

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	9,050	12,700	40%	19.4%	10.1%	15.0	14.5	2.1	2.1
BBRI	BUY	5,475	6,200	13%	10.5%	11.3%	18.2	18.7	3.0	3.2
ISAT	BUY	8,600	10,500	22%	-60.6%	27.0%	5.8	7.1	1.6	2.0
TOWR	BUY	1,040	1,310	26%	7.4%	15.3%	23.5	23.1	5.5	6.2
DRMA	BUY	1,575	1,600	2%	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	11,175	13,000	16%	13.3%	12.8%	19.1	18.9	6.7	7.1

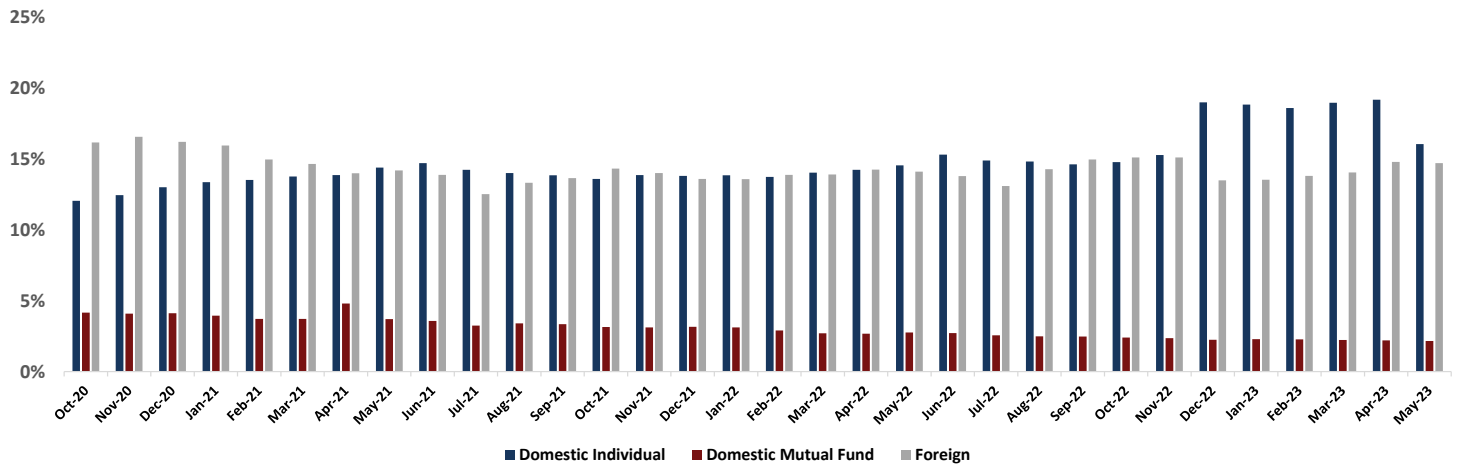
Source: SSI Research

Figure 1. Local fund cash level



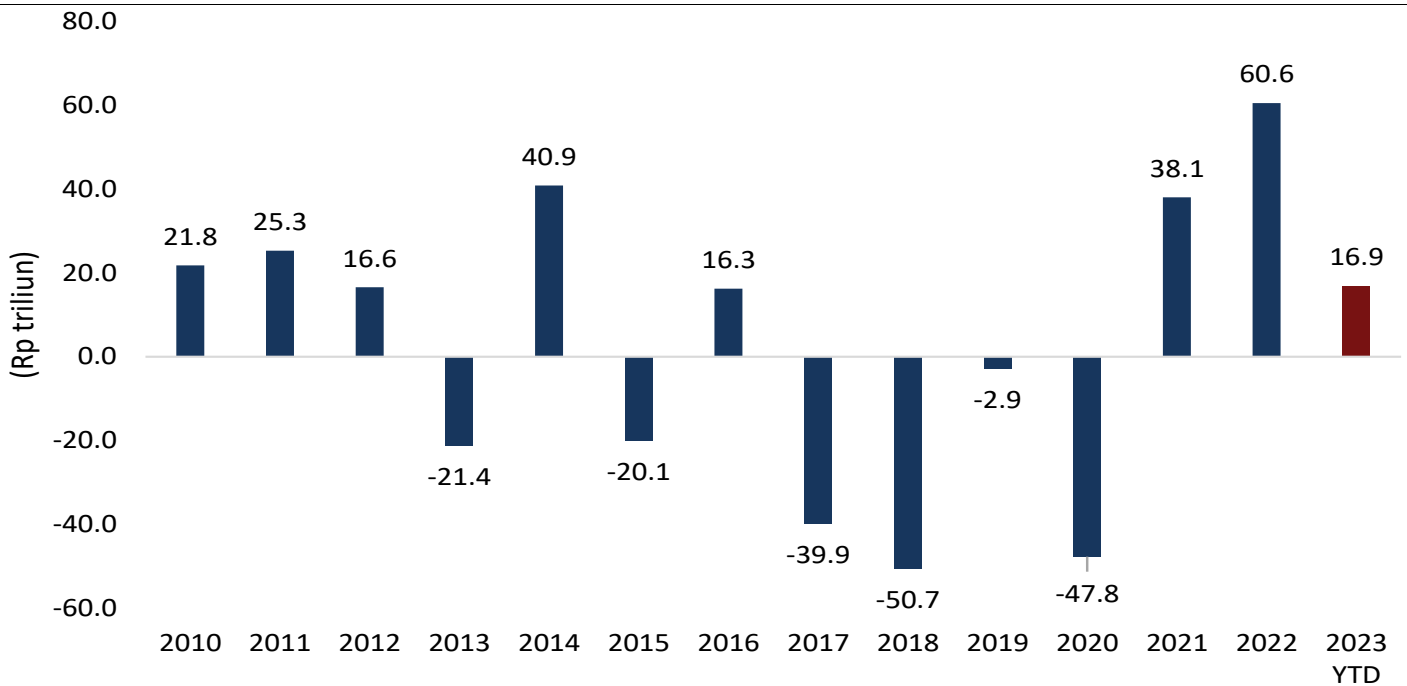
Source: OJK, SSI Research

Figure 2. Domestic and foreign ownership in JCI



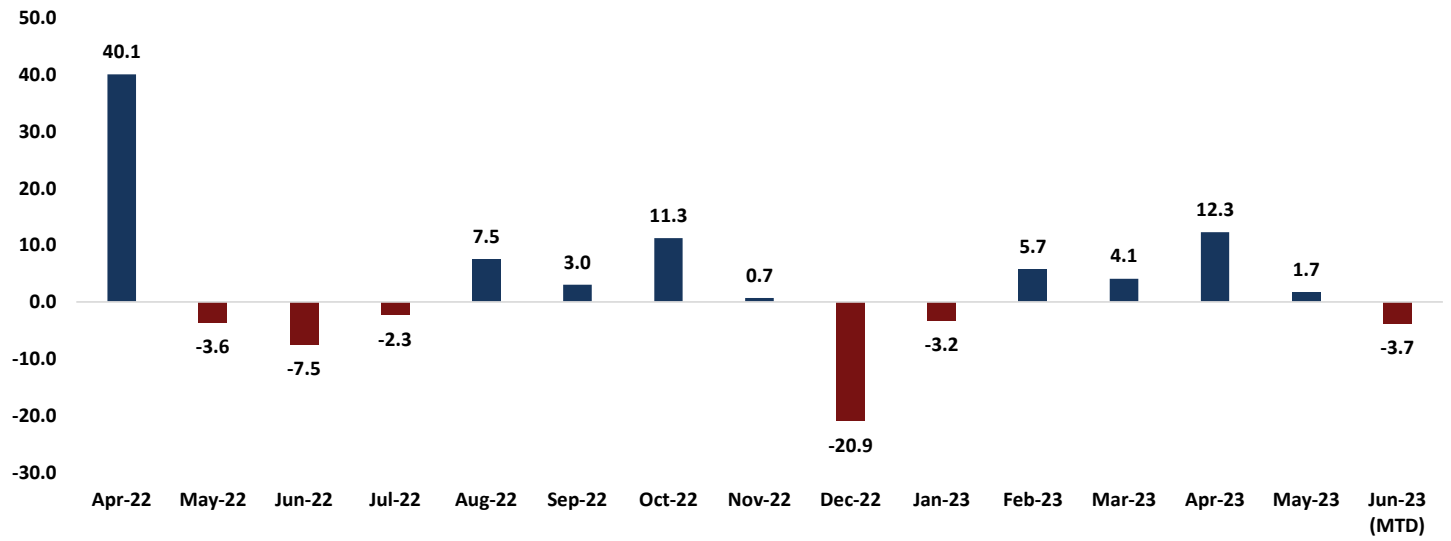
Source: KSEI, SSI Research

Figure 3. Domestic equity foreign flow (IDR, Tn)



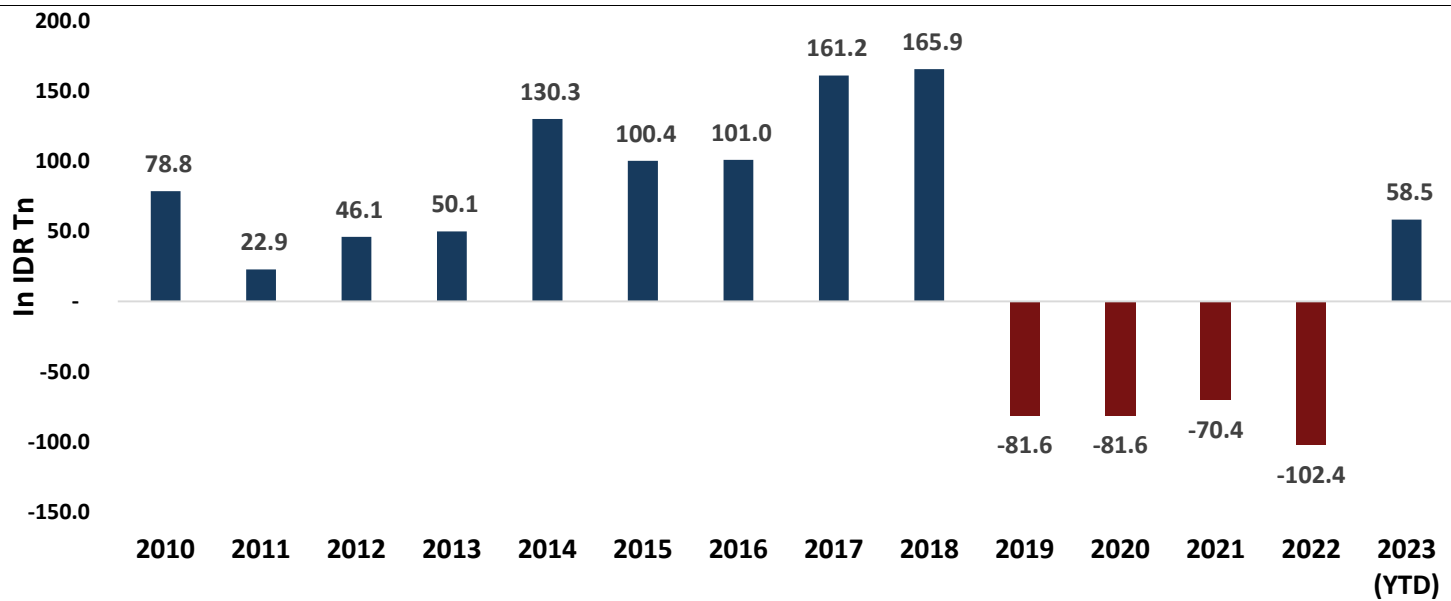
Source: Bloomberg, SSI Research

Figure 4. Domestic monthly equity foreign flow 6M23 (IDR, Tn)



Source: Bloomberg, SSI Research

Figure 5. Domestic monthly bond flow (IDR, Tn)



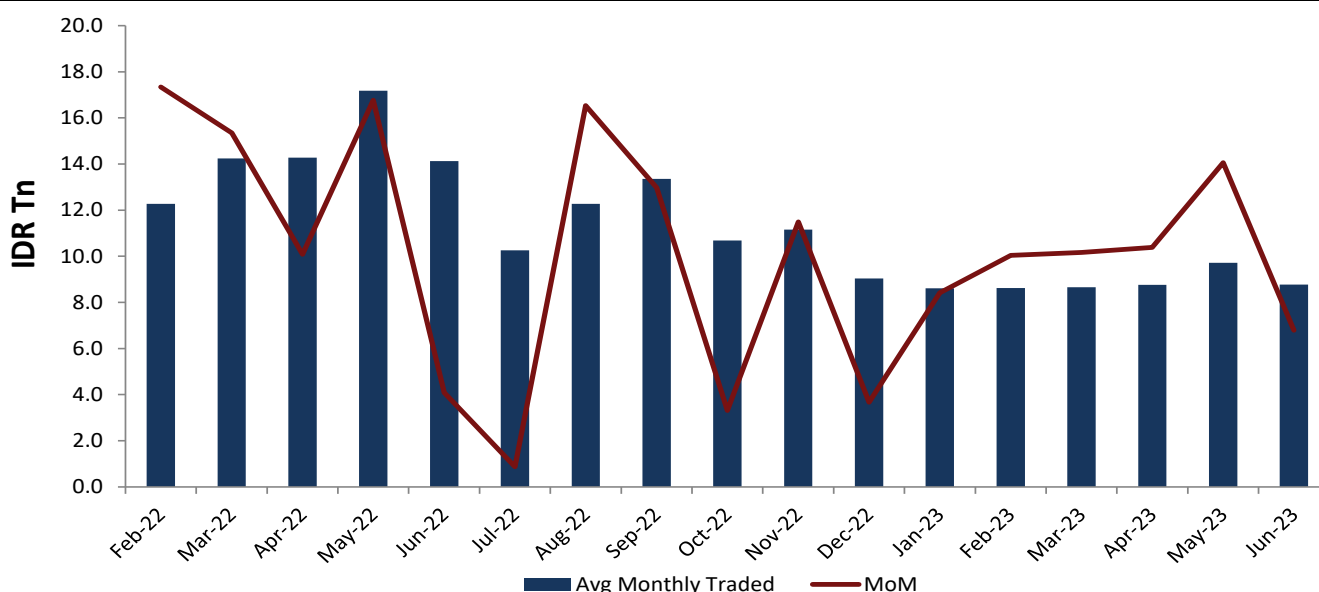
Source: Bloomberg, SSI Research

Table 2. Sectoral distribution of foreign ownership

Sector	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	Apr-23	May-23
Bank	34%	34%	34%	35%	34%	34%	34%	34%	35%	35%	35%
Digital banks	0%	0%	1%	1%	1%	1%	1%	1%	1%	0%	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%	4%	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%	13%
Pulp and Paper	7%	7%	6%	6%	6%	6%	6%	6%	6%	7%	6%
Media	8%	8%	8%	8%	9%	9%	9%	8%	8%	7%	7%
Telco	19%	17%	13%	14%	14%	15%	15%	15%	15%	16%	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%	37%
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%	19%
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%	12%
Chemical	2%	2%	2%	2%	2%	2%	3%	3%	2%	2%	2%
Utilities	18%	17%	17%	17%	16%	16%	16%	17%	20%	20%	21%
Metal	6%	6%	7%	7%	7%	9%	9%	9%	9%	10%	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%

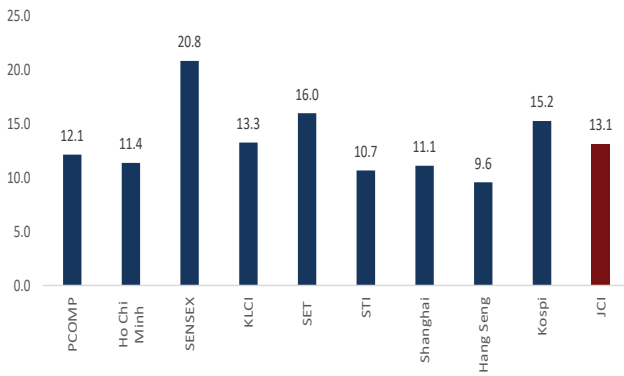
Source: KSEI, SSI Research

Figure 6. Average daily trading value 3M23



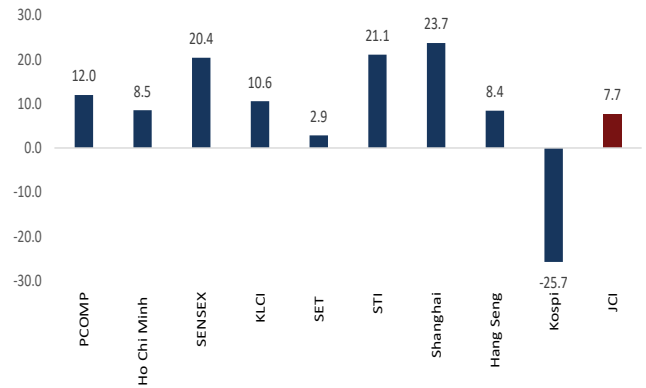
Source: Bloomberg, SSI Research

Figure 7. JCI's PE JCI'seers



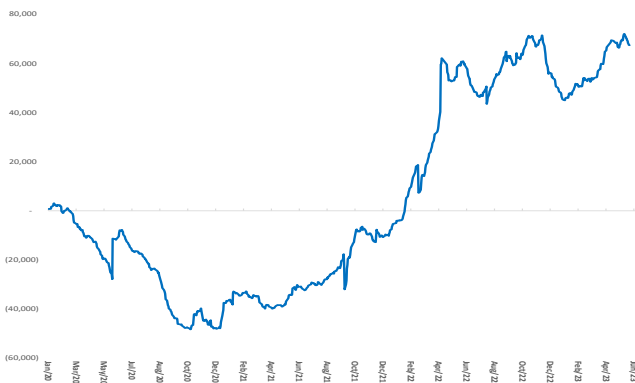
Source: Bloomberg, SSI Research

Figure 8. JCI's EPSJCI'sth vs. Peers



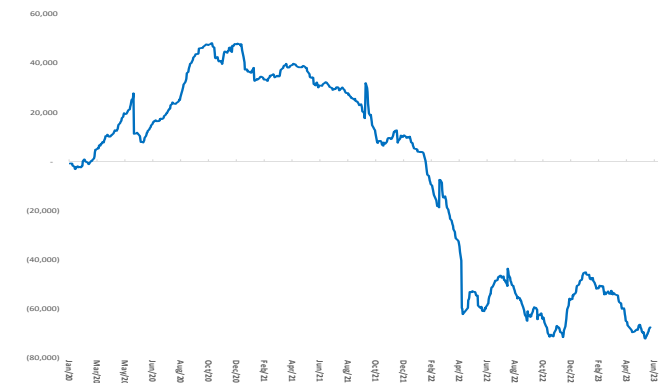
Source: Bloomberg, SSI Research

Figure 9. Foreign flow to JCI



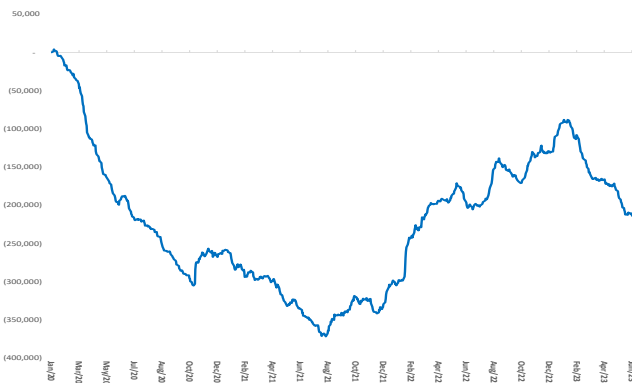
Source: Bloomberg, SSI Research

Figure 10. Domestic flow to JCI



Source Bloomberg, SSI Research

Figure 11. Foreign flow to Thailand



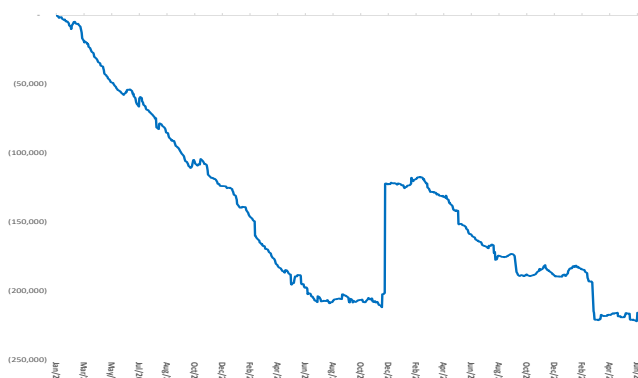
Source: Bloomberg, SSI Research

Figure 12. Foreign flow to South Korea



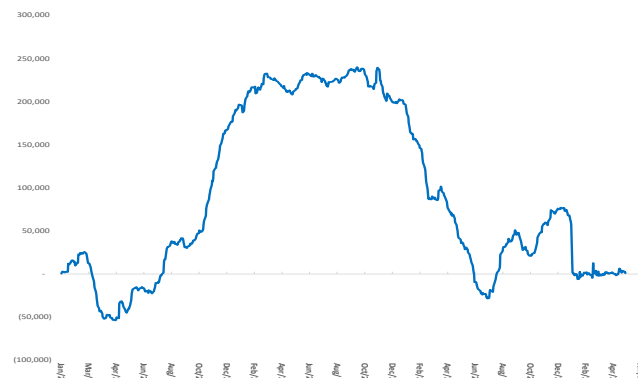
Source Bloomberg, SSI Research

Figure 13. Foreign flow to the Philippines



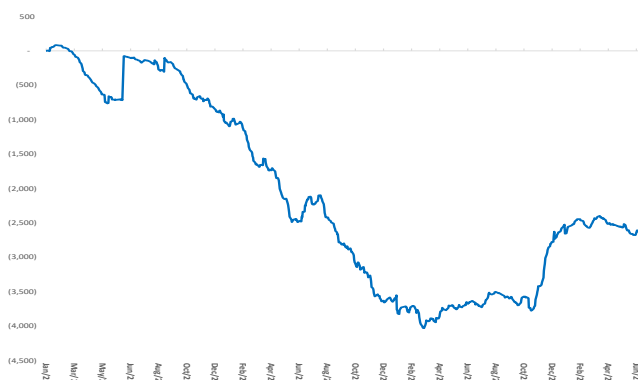
Source: Bloomberg, SSI Research

Figure 14. Foreign flow to India



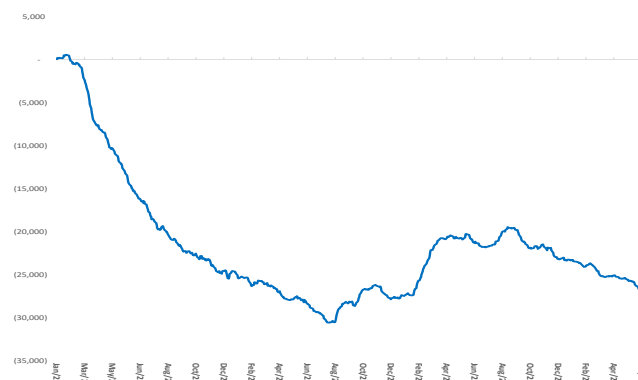
Source Bloomberg, SSI Research

Figure 15. Foreign flow to Vietnam



Source: Bloomberg, SSI Research

Figure 16. Foreign flow to Malaysia



Source Bloomberg, SSI Research

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	14.2
Nasdaq Composite Index	27.1	-5.3	35.9	42.9	22.0	-33.5	30.0
Taiwan Taiex Index	16.3	-8.0	23.9	21.5	25.8	-22.4	20.9
Dow Jones Indus Avg	24.7	-7.1	23.4	6.2	19.7	-8.9	2.5
FTSE 100 Index	8.0	-11.7	12.7	-14.2	12.1	0.7	0.1
KOSPI INDEX	21.9	-17.3	7.7	30.4	6.0	-25.3	16.9
NIKKEI 225	18.9	-12.2	18.2	15.1	7.2	-9.4	29.4
SHANGAI SE COMPOSITE	6.8	-24.3	21.9	13.6	6.5	-14.6	2.6
MSCI ASIA EX JAPAN	39.7	-16.4	16.3	21.8	-4.0	-20.9	2.3
FTSE MALAYSIA	9.7	-4.9	-4.5	2.1	-6.1	-3.1	-5.2
HANGSENG INDEX	37.3	-14.6	11.0	-3.8	-12.2	-14.4	-4.6
JCI INDEX	19.9	-1.9	1.7	-5.5	8.0	4.1	-2.2

Source: Bloomberg, SSI Research

Table 4. JCI and sectoral performance

Index	DoD	WoW	MoM	YoY	YTD
JCI	0.6	0.0	-0.4	-3.9	-2.2
LQ45	0.6	0.5	1.0	-5.2	2.1
IDXFİN	0.9	0.1	1.4	-5.0	-1.0
IDXBASIC	0.6	-0.1	-3.4	-23.0	-18.2
IDXNCYC	0.9	-0.3	0.6	6.9	3.4
IDXENER	0.5	0.9	-1.2	9.0	-20.6
IDXINFRA	1.2	0.5	5.3	-8.0	-1.2
IDXCYC	1.4	-0.5	3.6	-0.9	3.6
IDXTECH	1.3	1.9	3.6	-35.5	-3.9
IDXHLTH	-1.2	-1.6	-1.1	-1.9	-3.6
IDXPROP	0.5	-1.1	1.2	6.7	3.1
IDXINDUS	0.5	-0.5	0.0	-4.8	-0.2
IDXTRANS	1.1	-1.3	7.0	-4.6	16.2

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 17. JCI's 5 Year PE band



Source: Bloomberg, SSI Research

Research Team			
Prasetya Gunadi	Head of Equity Research, Strategy, Banking, Digital Banks	prasetya.gunadi@samuel.co.id	+6221 2854 8320
Lionel Priyadi	Macro Equity Strategist	lionel.priyadi@samuel.co.id	+6221 2854 8854
Muhamad Alfatih, CSA, CTA, CFTe	Senior Technical Analyst	m.alfatih@samuel.co.id	+6221 2854 8129
William Mamudi, CFTe, CMT, CCT	Senior Technical Analyst	william.mamudi@samuel.co.id	+6221 2854 8382
Yosua Zisokhi	Cement , Cigarette, Paper, Plantation,Telco Infra, Chemicals	yosua.zisokhi@samuel.co.id	+6221 2854 8387
M. Farras Farhan	Media, Poultry, Oil & Gas, Technology	farras.farhan@samuel.co.id	+6221 2854 8346
Pebe Peresia	Automotive, Consumer Staples, Retail	pebe.peresia@samuel.co.id	+6221 2854 8339
Juan Oktavianus Harahap	Coal, Metal Mining	juan.oktavianus@samuel.co.id	+6221 2854 8846
Jonathan Guyadi	Banking, Healthcare, Telco	jonathan.guyadi@samuel.co.id	+6221 2854 8321
Adolf Richardo	Editor	adolf.richardo@samuel.co.id	+6221 2864 8397
Ashalia Fitri Yuliana	Research Associate	ashalia.fitri@samuel.co.id	+6221 2854 8389
Daniel Aditya Widjaja	Research Associate	daniel.aditya@samuel.co.id	+6221 2854 8322
Laurencia Hiemas	Research Associate	laurencia.hiemas@samuel.co.id	+6221 2854 8392
Brandon Boedhiman	Research Associate	brandon.boedhiman@samuel.co.id	+6221 2854 8392

Equity Institutional Team			
Benny Bambang Soebagjo	Head of Institutional Equity Sales	benny.soebagjo@samuel.co.id	+6221 2854 8312
Ronny Ardianto	Institutional Equity Sales	ronny.ardianto@samuel.co.id	+6221 2854 8399
Anthony Yunus	Institutional Equity Sales	anthony.yunus@samuel.co.id	+6221 2854 8314
Widya Meidrianto	Institutional Equity Sales	widya.meidrianto@samuel.co.id	+6221 2854 8317
Fachruly Fiater	Institutional Sales Trader	fachruly.fiater@samuel.co.id	+6221 2854 8325
Lucia Irawati	Institutional Sales Trader	lucia.irawati@samuel.co.id	+6221 2854 8173
Alexander Tayus	Institutional Equity Dealer	alexander.tayus@samuel.co.id	+6221 2854 8319
Leonardo Christian	Institutional Equity Dealer	leonardo.christian@samuel.co.id	+6221 2854 8147

Equity Retail Team			
Joseph Soegandhi	Head of Equity	joseph.soegandhi@samuel.co.id	+6221 2854 8872
Damargumilang	Head of Equity Retail	damargumilang@samuel.co.id	+6221 2854 8309
Denzel Obaja	Head of Community & Partnership	denzel.obaja@samuel.co.id	+6221 2854 8342
Clarice Wijana	Head of Equity Sales Support	clarice.wijana@samuel.co.id	+6221 2854 8395
Gitta Wahyu Retnani	Equity Sales & Trainer	gitta.wahyu@samuel.co.id	+6221 2854 8365
Vincentius Darren	Equity Sales	darren@samuel.co.id	+6221 2854 8348
Michael Alexander	Equity Sales	michael.alexander@samuel.co.id	+6221 2854 8369
Sylviawati	Equity Sales	sylviawati@samuel.co.id	+6221 2854 8112
Wandha Ahmad	Equity Sales	wandha.ahmad@samuel.co.id	+6221 2854 8316
Handa Sandiawan	Equity Sales	handa.sandiawan@samuel.co.id	+6221 2854 8302
Wahyudi Budiyo	Dealer	wahyudi.budiyo@samuel.co.id	+6221 2854 8152

Fixed Income Sales Team			
R. Virine Tresna Sundari	Head of Fixed Income	virine.sundari@samuel.co.id	+6221 2854 8170
Rudianto Nugroho	Fixed Income Sales	rudianto.nugroho@samuel.co.id	+6221 2854 8306
Sany Rizal Keliobas	Fixed Income Sales	sany.rizal@samuel.co.id	+6221 2854 8337
Safitri	Fixed Income Sales	safitri@samuel.co.id	+6221 2854 8376
Khairanni	Fixed Income Sales	khairanni@samuel.co.id	+6221 28548104
Nadya Attahira	Fixed Income Sales	nadya.attahira@samuel.co.id	+6221 2854 8305

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