Economic & Market Outlook 2024

Scouring for the Market's Silver Lining

MNC Securities Research Team I Flagship Report

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Insight Summary

Global Macro

- **Balancing Challenges & Anticipated Shifts:** Expectations for FY24E indicate a gradual easing of global inflationary pressures, potentially followed by monetary relaxation. Global trade is projected to rebound to 3.5% in FY24E alongside a consistent GDP growth of 3.0%.
- **Global Growth Risk & Monetary Policy:** The risks to global growth, primarily influenced by monetary policy, remain significant, and challenges to earnings might persist until an eventual recovery gains traction in early FY24E. Market expectations, as per the CME FedWatch Tool, suggest a potential decrease of approximately 1% by the end of FY24E.
- **DXY & Commodity Outlook:** Taking into account the factors bolstering the dollar index's ascent—such as a slight decrease in the inflation trend heading into 4Q23, the onset of a decline in US treasury yields, and the downward trajectory of Brent crude oil prices since their peak in September—we anticipate the continuation of the dollar's weakening trend.
- **Unpacking China's Economic Shift Aftermath:** The aftermath of the significant collapse in China's property sector is anticipated to have broad-reaching effects and could once more provoke global inflationary pressures. The economic slowdown in China poses a risk that could affect Indonesia's economic growth.

Domestic Macro

- **GDP growth Outlook:** With the consumer confidence index stable and inflation projected between 2.65% to 2.90%, Indonesia's GDP is estimated to grow by ~5% in FY24E.
- **Government's Fiscal and Monetary Policy Harmony:** The synergy of the policy mix implemented by the Government throughout 2023 has produced positive results as indicate by the performance and prospects of the national economy which are quite strong even amidst global uncertainty.
- **Indonesia's Economic Resilience Amidst Capital Flows:** The cumulative foreign capital inflow from January 1, 2023, to November 30, 2023, into the SBN market totals IDR71.69 tn, while in Bank Indonesia Rupiah Securities (SRBI), it reached IDR37.27 tn. However, there was a net outflow of foreign capital from the stock market amounting to IDR15.22 tn during this period.

Sentiment Speaks

- **Government Stimulus to Strengthen the Domestic through:** 1) Expansion of Social Assistance to protect the purchasing power of the low-income segment; 2) Acceleration of the Disbursement of KUR to strengthened MSMEs; 3) Strengthening of the Property Sector.
- **Eagerly awaiting government moves to fill pockets:** Government has revealed plans for an 8% salary increase for civil servants and a 12% raise for retirees in the upcoming year.
- **Examining the Transient Impact of Election Boost on Consumption:** Historically, in the last 4 cycles of political contests real GDP growth was lower ahead of election and higher post-election. Besides, actors are waiting for clarity around the candidacy and program, we also need take into account external macro event that also affect the output dynamics.
- **Concerns about escalating geopolitical tensions:** The recent Middle East conflict has sparked market apprehensions regarding a potential surge in inflation, with implications for the global economy's stability.

Bond Strategy

- **Gauging where the Treasury yields are headed for:** The US Treasury yield's 2s10s curve inverted on Jul 5, 2022, historically signaling an economic recession. This prolonged inversion has kept the market cautious, while bond investors wait for the right moment to enter.
- **Measuring Yield Terrain with Potential Rate Cut Tailwinds:** The narrowing spread between Indo GB and UST, declining risk premiums in Indonesia, and a significant influx of foreign funds into SBN point towards a shifting financial landscape. Forecasts for the US economy in 2024 hint at potential easing, possibly prompting BI to implement interest rate cuts, especially in the second and third quarters if a mild US recession prompts Fed rate adjustments.
- **What this entails for the Indo GB yields:** The Indo GB 10-year yield for FY24E could initially surge due to fund flows towards the UST, later stabilizing at 6.28% (base case), 6.58% (bear case), or 6.13% (bull case). Indo GB's projected real yield at 3.3% seems competitive against peers, but foreign preference for higher real yields elsewhere (Brazil, South Africa, Mexico) might hinder its potential.

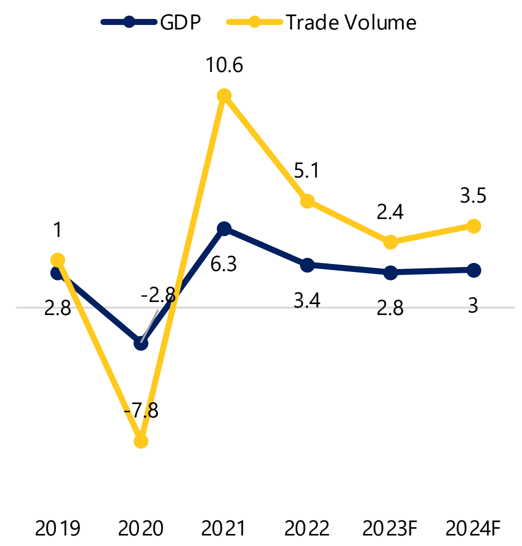
Equity Strategy

- **Unveiling the Thrills and Turns of 2023 in Snapshot Recap:** Global stock market enjoy a positive performance over the last month of FY23, including Indonesia while China stood alone lagging behind.
- **Foreign Mutual Fund Positioning has begun to enter the market:** Fortunately, the year concluded on a positive note with an uptick in the value of large-cap stocks in Dec-2023, complemented by a substantial return of foreign investors to the Indonesian stock market, amounting to USD497 mn. We also note that domestic investors, especially retail investors, continue to hold a predominant position.
- **JCI Target 2024:** Our target for the base case scenario relies on a 3%-8% EPS growth forecast (vs Bloomberg consensus est. at +8.58%), leading us to uphold our fundamental JCI target of 7,700 for the base scenario, 6,900 for the bear scenario, and 8,100 for the bull scenario.
- **Sector Rating and Stock Selection by:** 1) Earnings resilience; 2) Interest rate sensitive proxies; 3) Higher dividend yield; 4) Election momentum. We are overweight on banks, telco, property, consumer non-cyclical and utilities. Our top picks: BMRI, BRIS, TLKM, HMSP, BSDE, SMRA, JSMR, PGEO.

Contents

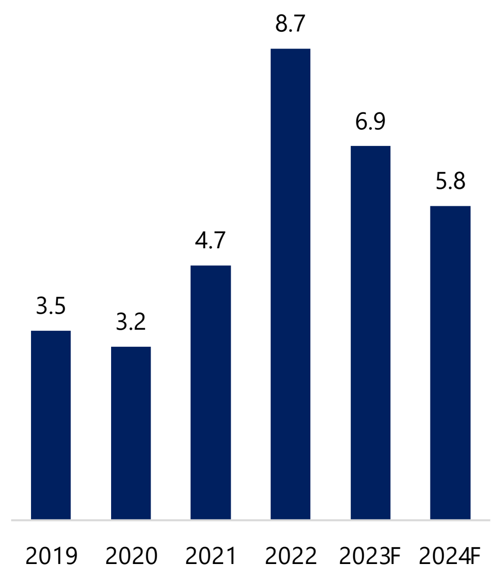
Global Macroeconomic

Exhibit 1. GDP Global & Trade Volume (% YoY)



Sources : IMF, MNCS

Exhibit 2. Global Inflation (% YoY)



Sources : IMF, MNCS

A. Balancing Challenges and Anticipated Shifts

The world anxiously awaits signs of a global turnaround in trends. The year 2024 brings forth considerable challenges for the global economy. Decision-makers and leaders are actively engaged in addressing the preceding combat years economic deceleration, aiming to navigate toward a swifter resurgence and expansion. Despite the emergence of positive signals contributing to economic stabilization, their impact appears inadequate to induce substantial policy shifts at the anticipated magnitude.

The 4Q22 witnessed a sudden slowdown in global trade and output due to tightened monetary policies across the United States, the European Union, and other regions. Trade growth is projected to rebound to 3.5% in 2024 alongside consistent GDP growth of 3.0% (Exhibit 1). While trade is anticipated to lag behind GDP growth this year, it's expected to outpace it in the coming year—a pattern often seen due to the significant share of investment and durable goods in trade compared to GDP.

Expectations for 2024 indicate a gradual easing of global inflationary pressures, potentially followed by monetary relaxation. In many countries, inflation is thought to have peaked in 2023 and is projected to progressively decline until 2024 (Exhibit 2). This forecast stems from the recovery of supply disruptions, the perceived saturation of the geopolitical crisis, and the normalization of commodity prices. The prevailing trend of monetary tightening is anticipated to diminish, with the possibility of easing measures in several major economies. However, while monetary policy direction may shift toward being more accommodating, interest rates are expected to persist at relatively high levels.

Assessing Economic Trends with Policy Adjustments

The repercussions of its monetary policy are anticipated to manifest in the US. Projections suggest a slower growth rate of 1.0% in 2024 for the US economy, marking a decelerating trend. The inevitable moderation in growth results from the aggressive measures of monetary tightening and the maintenance of high interest rates. Despite swiftly recovering from a technical recession, the US faces an unavoidable slowdown due to these factors. By the end of 2023, signs of improvement in US economic data aligned with the Federal Reserve's efforts to combat inflation, benefiting from resilient consumer and labor market conditions.

Asia is poised to emerge as the beacon of global growth. Amidst a sluggish global economy, the Asian economy stands out for its relative resilience, particularly Southeast Asian countries, which take center stage. The rapid expansion of Southeast Asia will be underpinned by several factors including robust domestic consumption, comparatively low inflation rates, and accommodative interest rate policies. As the ten members of the Association of Southeast Asian Nations (ASEAN), these nations are strategically positioned at the heart of the Indo-Pacific region, ensuring significant advantages. Indonesia, one of the larger ASEAN nations, is set to benefit notably from its involvement in the trade industry.

B. Monetary Policy and Global Growth Risk

Global inflationary pressures have subsided, while the inflation rate is quite high. Despite the global decrease in energy and food commodity prices and supply chain enhancements that have bolstered inflationary pressures, inflation rates in the US and Europe remain higher than their medium to long-term averages. The Fed and ECB are anticipated to maintain a stringent monetary policy, given the potential for elevated inflation caused by geopolitical conflicts and the resurgence of global economic activity. Consequently, global monetary policy is expected to remain tight for an extended period ('higher for longer').

The risks to global growth, primarily influenced by monetary policy, remain significant, and challenges to earnings might persist until an eventual recovery gains traction in early 2024. Historically, global stocks tend to decline in the three months before a new phase of monetary easing, as risk assets adjust for a slower growth outlook. If central banks adhere to the plan of initiating rate cuts by June, there might be a decline in the valuation of global equities in the early part of the year.

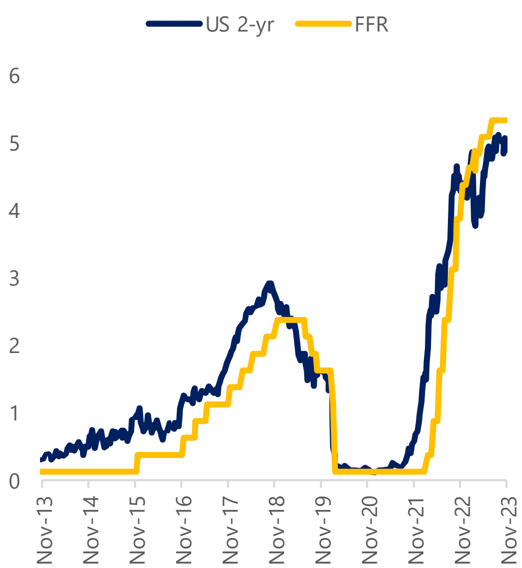
Emerging-market equities are confronting various impediments, notably a strengthening dollar and subdued growth in China. The challenges faced by Chinese policy makers specifically dealing with debt, demographics, and deflation are adding complexity to these risks. Moreover, corporate initiatives to diversify supply chains amid geopolitical tensions and the lingering disruptions from the pandemic are amplifying these difficulties. However, there's a prospect of a stronger rebound in emerging markets in the latter part of the year, as the potential effects of lower rates and a declining U.S. dollar could spur increased capital inflows.

C. Another Signal for Future Shift

At the latest FOMC meeting decision on November 1, 2023, the Fed maintained rates at 5.25-5.50%, extending a pause from the aggressive rate-hiking strategy initiated in Mar-2022 to combat escalating inflation. The rise in interest rates aligned with the increase in the 2-year UST Yield, as depicted in (Exhibit 3). Currently, the Fed indicated possibility to hold FFR at level 5.25-5.5% until 1H24, considering the labor market data updates. However, based on CME FedWatch consensus expects The Fed to trim FFR soon in Mar-2024.

The Federal Reserve is anticipated to eventually decrease interest rates in 2024, with a focus more towards the latter part of the year. Currently, the Fed Funds target rate ranges between 5.25% and 5.50%. Market expectations, as per the CME FedWatch Tool, suggest a potential decrease of approximately 1% by the end of 2024. This assessment indicates a likely range of short-term rates between 4% and 5% by Dec-2024.

Exhibit 3. The Trend US 2yr vs FFR (%)



Sources : Bloomberg, MNCS

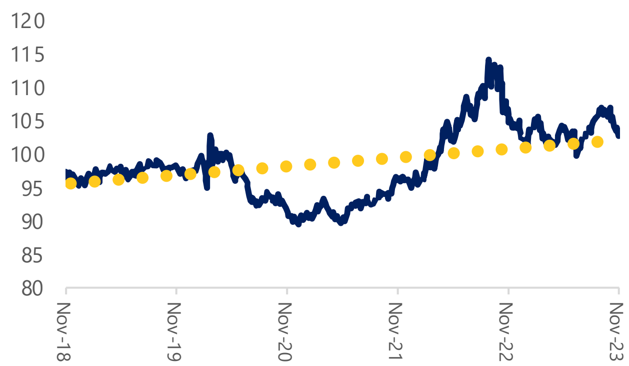
D. DXY & Commodity Outlook

US Dollar Strength: Implications and Anticipated Downturn
The US Dollar Index (DXY) has consistently strengthened since mid-July up to the present. This appreciation is influenced by various factors, particularly the high demand for the US dollar. The strengthening of the dollar index began on July 14, 2023, at 99.91 and, by September 6, 2023, it reached 104.83, showing an almost 5% rise in less than two months (Exhibit 4).

The DXY's strengthening coincided with a rise in US inflation in July, breaking its downward trend of 12 consecutive months. Elevated interest rates will likely drive investors toward safer assets, like US dollars and bonds, which offer greater appeal. Moreover, there's concern that the surge in oil prices might lead to a resurgence in inflation. This heightened oil price could particularly strain countries that heavily rely on oil imports, as it swiftly enlarges the import expenses, consequently escalating the demand for US dollars.

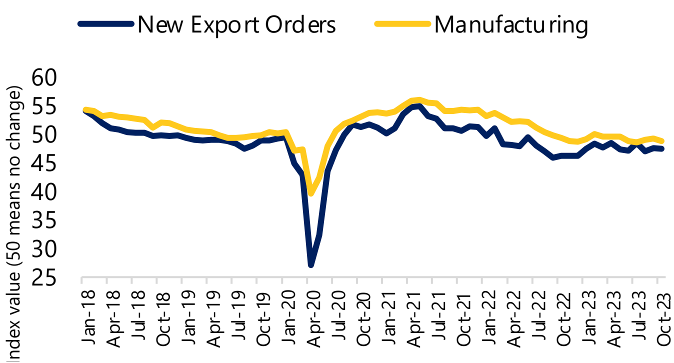
Foreign exchange reserves contribute significantly to the DXY's strength, playing a crucial role in financing imbalances within a country's balance of payments and ensuring currency exchange rate stability. Taking into account the factors bolstering the dollar index's ascent—such as a slight decrease in the inflation trend heading into 4Q23, the onset of a decline in US treasury yields, and the downward trajectory of Brent crude oil prices since their peak in September—we anticipate the continuation of the dollar's weakening trend.

Exhibit 4. The US Dollar Index Progressions



Sources : Bloomberg, MNCS

Exhibit 5. Global PMI



Sources : Bloomberg, MNCS

Cross-Sector Effects of Commodity Fragmentation
Between Feb-2022 and Nov-2023, the global PMI consistently registered below 50 (Exhibit 5). This decline began earlier in the Eurozone as a consequence of the prolonged Russia-Ukraine conflict. The conflict fractured major commodity markets and escalated geopolitical tensions, particularly in Europe. The decline in demand from the service and manufacturing sectors has prompted companies to reduce jobs as a cost-saving measure amid sluggish demand conditions.

In ASEAN countries such as Thailand, Malaysia, and Vietnam, they've also experienced a contraction phase. Even China, which was previously in an expiring phase, declined into a contraction phase. Commodities are highly vulnerable to fragmentation due to concentrated production, difficult-to-replace consumption, and the significant role of commodities in technology. This has caused significant changes in commodity prices and increased volatility. Disruption in commodity trade will also have uneven impacts among countries, although global losses are moderated by balancing effects among nations.

US-Europe Diverging Trajectory

According to the IMF projections as of Oct-2023, global economic growth in 2024 is expected to slow to 2.9%. For developed countries, growth in 2024 is projected to marginally decline to 1.4% from 1.5% in 2023, while growth in the group of emerging countries is expected to stabilize at 4.0%.

The economic recovery outlook in the US continues to show a slowing trend for 2023 and 2024 at 2.1% and 1.5%, respectively, as illustrated in (Exhibit 6). The impact of aggressive monetary tightening and persistently high interest rates prevents the US from avoiding growth deceleration. The IMF forecasts that economic growth in the Eurozone will be extremely low in 2023 at 0.7%. However, it is expected to improve in 2024 with a growth rate of 1.2%. Decreased inflationary pressures are driven by declining energy and food commodity prices, as well as global improvements in the supply chain. The prospects for the European economy are expected to accelerate if a resolution is achieved in the Russia-Ukraine conflict.

Asia's Leading Momentum Trend

Asia is expected to serve as the engine for growth and international trade in 2024. The reopening of activities in China post-Zero-Covid policies initiated since 2023, along with its substantial economic potential, is anticipated to play a significant role. India's economic growth in 2023 and 2024 is projected to remain consistent at 6.3%. India's growth is set to surpass China's, making it the highest among G20 countries.

Meanwhile, the growth of the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam) continues to be supported by robust domestic consumption. Economic activities will also receive a boost from the recovery of the tourism sector as life gradually returns to normal post-pandemic. On the other hand, industrialization within the ASEAN-5 will play a crucial role in creating higher competitiveness and fostering more sustainable development, especially in countries that still heavily rely on natural resources.

Exhibit 6. World Economic Outlook Projections (%)

Country	2022	2023F	2024F
United States	2.1	2.1	1.5
Japan	1.0	2.0	1.0
United Kingdom	4.1	0.5	0.6
Euro Area	3.3	0.7	1.2
China	3	5.0	4.2
Indonesia	5.3	5.0	5.0
India	7.2	6.3	6.3
Malaysia	8.7	4.0	4.3
Philippines	7.6	5.3	5.9
Thailand	2.6	2.7	3.2
Singapore	3.6	1.0	2.1

Source : IMF (Oct, 2023)

E. Unpacking China's Economic Shift Aftermath

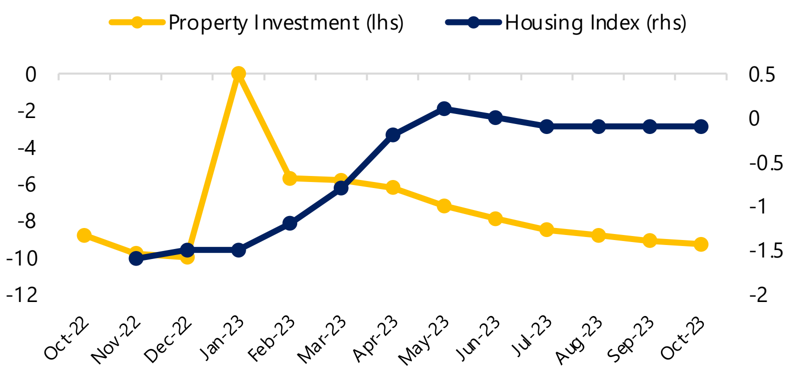
The world's second-largest economy recently witnessed deflation for the first time in two years, marked by a 7.8% decline in new home sales in Oct-2023 (Exhibit 7), a 9.3% drop in real estate investment, and an 18.1% increase in the volume of unsold properties. These developments have sparked concerns that China might be entering a deflationary phase akin to Japan's experience in the 1990s.

China's economy is expected to achieve slightly more than a 5% growth rate by the conclusion of 2023. Over the year, anticipations in the market regarding policy boosts have adjusted to align with Beijing's broader vision, pivoting away from solely prioritizing growth. This revised strategy now encompasses national security and income equality alongside economic expansion. This change reflects China's efforts to confront persistent challenges such as an aging population, declining returns on investment, and increasing geopolitical divisions.

China's endeavors to recover from the property sector crisis, affecting the raw materials sector, financial system, and banking, are steadily gaining momentum despite the ongoing hurdles. The domino effect initiated by the decline in new home sales could result in an upsurge in developer's defaults, a drastic reduction in government revenue, diminished demand for construction materials, decreased wages for employees in both the property and government sectors, weakened consumption, and the potential instability of financial institutions.

Furthermore, the aftermath of the significant collapse in China's property sector is anticipated to have broad-reaching effects and could once more provoke global inflationary pressures. The economic slowdown in China poses a risk that could correct Indonesia's economic growth. During April to Jun-2023, Indonesia's exports dropped by 2.75% YoY, reported by the Central Statistics Agency (BPS). Despite this, hope for China's economy persists, driven by mega projects like One Belt, One Road.

Exhibit 7. China Property Investment & Housing Index



Sources : Bloomberg, MNCS

Domestic Macroeconomic

A. Growing Pains: Economic Slump Struggles

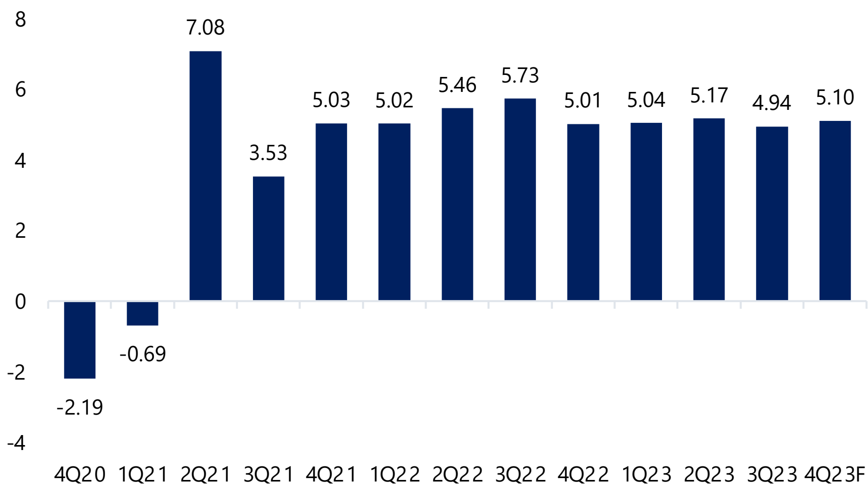
Over recent years, Indonesia's economy has been steadily growing, positioning the country as an emerging force among the world's leading economies. Indonesia's economic growth in the third quarter of 2023 stood at 4.94% YoY, marking a decline from seven consecutive quarters of growth above 5% YoY, reaching 5.10% YoY until the second quarter of 2023.

The domestic economic slowdown may be attributed in part to reduced purchasing power. Household consumption dropped to 5.06% YoY in the third quarter from the previous growth of 5.22% YoY in the second quarter, coinciding with a decrease in inflation to 2.28% YoY in the second quarter of 2023.

The economic slowdown was also reflected in the manufacturing sector, evidenced by a contraction in the manufacturing index. Indonesia's Manufacturing PMI for October 2023 dropped to 51.5 from the previous 52.3. Despite this decline, it remains in an expansionary phase. Amid this economic slowdown, Indonesia is gearing up for General Elections (Pemilu) in the coming months. This five-yearly democratic event is anticipated to stimulate activity in the public administration sector due to increased campaign spending and heightened public consumption. The presidential and vice-presidential elections, along with the legislative elections, were held on February 14, 2024, while the election of new regional heads is scheduled for the end of 2024.

We anticipate a slight uptick in real GDP growth in 2024 due to moderated inflation and interest rates, stimulating household spending. Expectations for robust public consumption persist into the fourth quarter. The upcoming campaign season is poised to bolster growth, complemented by the anticipated effects of the 2024 Christmas and New Year holidays. With the consumer confidence index stable and inflation projected between 2.65% YoY to 2.90% YoY, Indonesia's GDP is estimated to grow by 5.1% YoY in FY23E. (Exhibit 8).

Exhibit 8. Indonesia GDP Annual Growth (%)



Sources : BPS, MNCS

Several Challenges Loom On The Horizon
Amidst the global economic recovery, the Indonesian economy purportedly grapples with several uncertainties. Domestically, challenges such as slowing exports, escalating domestic interest rates, a depreciating rupiah exchange rate, and the impending elections are predicted to present significant macroeconomic hurdles for Indonesia in 2024.

The forthcoming challenge stems from the pervasive impact of climate change across various sectors, notably agriculture, forestry, fisheries, and tourism. These industries confront vulnerabilities due to declining productivity, while ongoing government efforts to combat climate change create impediments to economic growth. El Nino has the most significant impact on the agricultural sector; low rainfall inevitably leads to drought in farmlands, raising concerns about crop failures. However, towards the end of the year, the effects of El Nino are predicted to diminish as the rainy season approaches.

In 2024, Indonesia's economic landscape will be predominantly influenced by political developments and global financial conditions. The upcoming elections are poised to impact the country's growth trajectory and various indicators. This also involves the adverse effects stemming from political uncertainty.

B. Government’s Fiscal and Monetary Policy Harmony

Policy Sinergy as Key Directional Influence
The Ministry of Finance has initiated several responsive fiscal policies, including subsidy programs and social safety nets, alongside expediting budget allocation to alleviate inflationary pressures and sustain the ongoing economic recovery.

The Government's backing remains crucial to further fortify the domestic economy, heavily reliant on domestic businesses like MSMEs and local investors. This support can manifest through sustained measures, such as maintaining the 0.5% final PPH for MSMEs, delaying the 12% VAT rate hike, ensuring price stability in the supply chain, and stabilizing energy prices.

Bank Indonesia's decision to raise interest rates by 6% in October 2023 aimed at stabilizing the Rupiah's exchange rate, aligning it steadily with its fundamental value. However, the downside of this benchmark interest rate hike may result in increased public credit interest rates, thereby escalating expenditure burdens for individuals amidst stagnant community income.

The synergy of the policy mix implemented by the Government throughout 2023 has produced positive results as indicate by the performance and prospects of the national economy which are quite strong even amidst global uncertainty. We view that the synergy of national economic policies that are mutually supportive, solid and precise will create the stability and national economic growth expected by all parties.

C. Indonesia's Economic Resilience Amidst Capital Flows

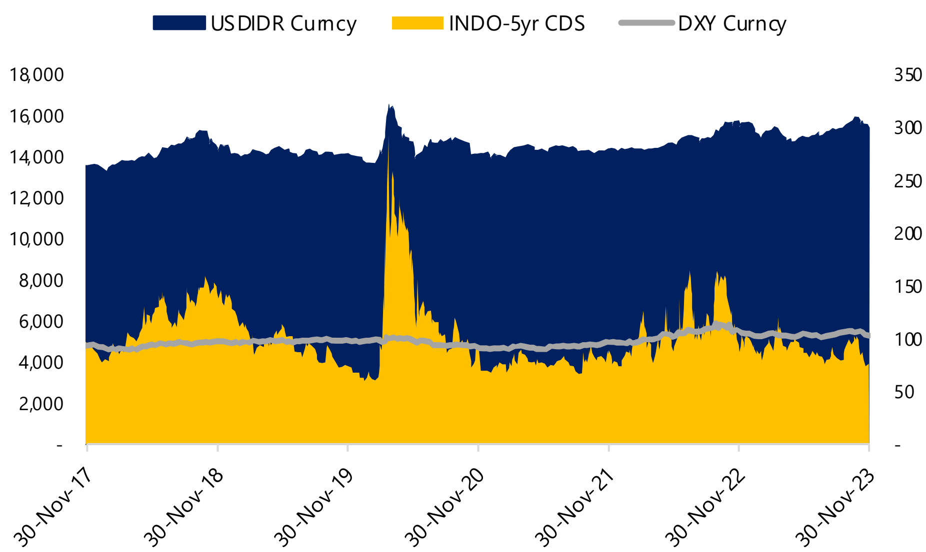
The global decline in demand and the 'higher-for-longer' monetary policy embraced by major central banks worldwide have spurred capital outflows from several developing nations, including Indonesia, leading to pressure and depreciation of the Rupiah exchange rate.

The cumulative foreign capital inflow from January 1, 2023, to November 30, 2023, into the SBN market totals IDR1.69 tn, while in Bank Indonesia Rupiah Securities (SRBI), it reached IDR37.27 tn. However, there was a net outflow of foreign capital from the stock market amounting to IDR15.22 tn during this period.

In strengthening the external sector's resilience and maintaining stability within the macroeconomic and financial systems, Bank Indonesia issued global sukuk and cleared government foreign loans. Indonesia's foreign exchange reserves stood at USD138.1 bn by the end of November 2023, reflecting growth from the October 2023 position of USD133.1 bn.

Meanwhile, Indonesia's 5-year investment risk premium, indicated by the credit default swaps (CDS) premium, has surged. The metric climbed to 100.83 bps as of October 19, 2023, marking an increase from 95.48 bps recorded on October 13, 2023 (Exhibit 9). Despite a slight uptick in CDS, market confidence in the Indonesian market persevered, bolstered by optimism surrounding the US central bank's commitment to maintaining interest rates until at least the end of 2023. This stance is anticipated to reinvigorate foreign fund inflows into the Indonesian financial market.

Exhibit 9. Indonesia's Investment Risk Premium



Sources : Bloomberg, MNCS

Sentiment Speaks!

A. Government Stimulus to Strengthen the Domestic Economy

The government have established a fiscal deficit target of 2.29% of GDP for the FY24E State Budget (APBN) with state revenue at IDR2,781.3 tn (+5.5% YoY) and projected state expenditures at IDR3,304.1 tn (+5.8% YoY). Anticipated 5.0%-5.2% YoY GDP growth in FY24E, instills confidence in meeting the fiscal deficit target, fueled by the expected boost in tax revenue from higher household consumption.

Additionally, initiatives promoting investment and exports are set to contribute to higher state revenue. The recent enactment of tax regulation harmonization laws is also anticipated to positively impact state revenue. However, we expect the potential rise in oil prices may pose a challenge to meeting the APBN deficit target. Moreover, the anticipated salary increases for civil servants and potential populist government policies, such as social assistance in a political year, are likely to elevate government spending.

Exhibit 10. Indonesia 2024 Budget Structure

Budget Structure	2020 Realization	2021 Realization	2022 Realization	Outlook 2023	RAPBN 2024
State Revenue (IDR tn)	1,648	2,011	2,636	2,637	2,781
Tax Revenue	1,629	2,006	2,630	2,634	2,781
Non-Tax Revenue	344	458	596	516	473
State Expenditure (IDR tn)	2,595	2,786	3,096	3,124	3,304
Central Govt. Spending	1,833	2,001	2,280	2,298	2,447
I. Line Ministries	1,060	1,191	1,085	1,085	1,077
II.Non-line Ministries	773	810	1,195	1,213	1,369
Regional Transfer and Village Funds	763	786	816	825	858
Primary Balance (IDR tn)	(634)	(432)	(74)	(49)	(26)
Surplus/Deficit (IDR tn)	(948)	(775)	(460)	(486)	(523)
Surplus/Deficit (% to GDP)	6.14	4.57	2.35	2.30	2.29
Financing (IDR tn)	1,193	872	591	486	523

Source : State Budget for Fiscal Year 2024

The ongoing global slowdown poses a risk of growth falling below 5% in FY23E. To address these challenges, a policy package comprising social assistance expansion, accelerated KUR disbursement, and housing sector strengthening is proposed. The measures aim to stabilize the economy, protect the vulnerable, and sustain growth amid global uncertainties.

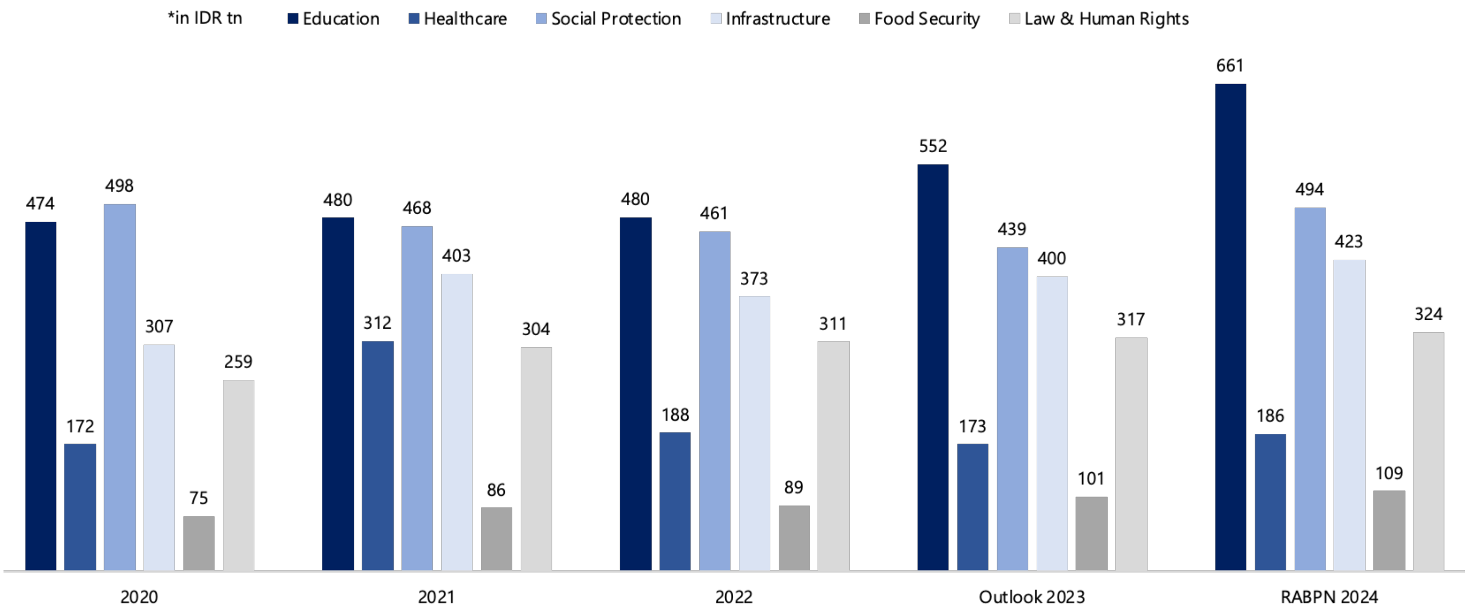
1. Expansion of Social Assistance to protect the purchasing power of the low-income segment

Under this policy initiative, a noteworthy provision entails the allocation of an additional 10kg of rice per household throughout the month of Dec-2023. This beneficence extends to a substantial demographic, encompassing 21.3mn beneficiary families, inclusive of those enrolled in the Family Hope Program (PKH) and/or availing basic needs assistance with a budget of IDR2.67 tn. Furthermore, the policy incorporates a Cash Direct Assistance (BLT) tailored to counteract the impacts of El Nino. This financial support, amounting to IDR200k/month, is dispensed over a two-month period spanning Nov-Dec 2023. A sizable cohort of 18.8mn beneficiary families, already receiving basic needs assistance, stands to benefit from this initiative, underlining a strategic allocation of funds totaling IDR7.52 tn. This judicious financial commitment underscores a nuanced response to mitigate the challenges posed by climatic anomalies and ensure the well-being of the affected populace.

2. Acceleration of the Disbursement of KUR to strengthened MSMEs
The acceleration of the disbursement of the KUR program is carried out through weekend banking, with the expectation that the absorption of KUR disbursement will increase and be more optimal. The realization of KUR in September 2023, amounting to IDR177.5 tn, is expected to reach IDR297tn by the end of FY23E.

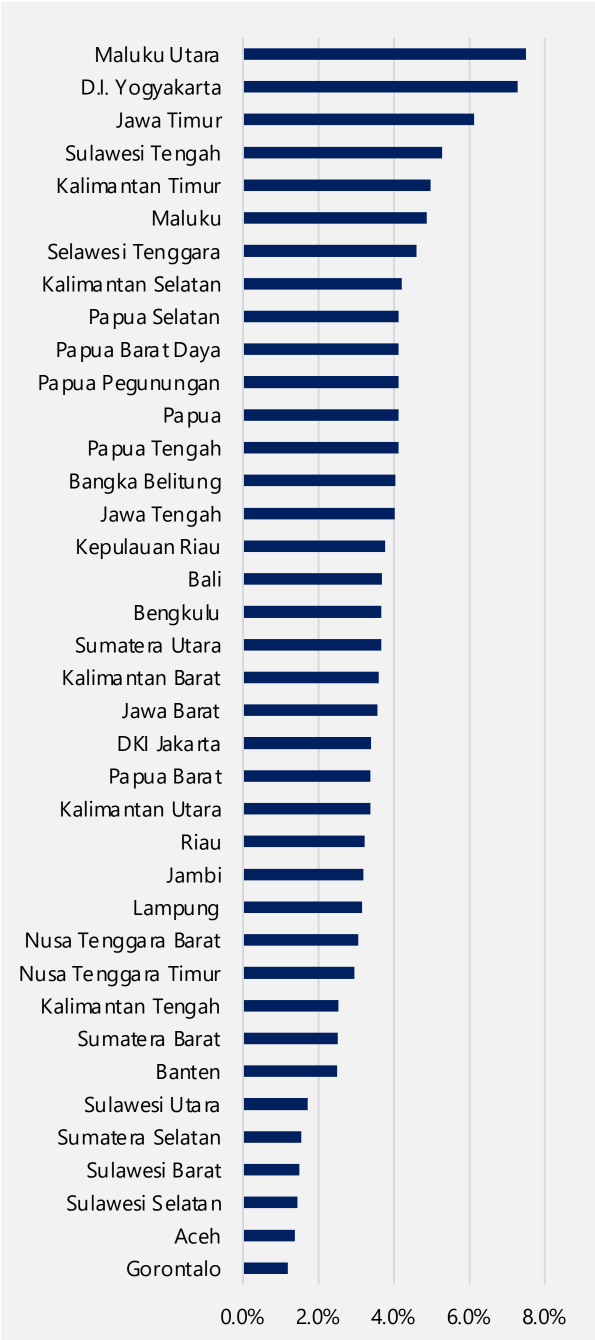
3. Strengthening of the Property Sector
The support provided for the property sector is targeted for commercial houses, low-income segment houses, and houses for the poor, with a total estimated budget of IDR3.7 tn for FY23E and FY24F. The government is set to implement an 11% VAT discount for newly delivered residential properties from Nov-2023 to Jun-2024, with a reduced 5.5% discount applicable for properties delivered from Jul-Dec 2024. This VAT discount specifically targets residential properties valued below IDR2 bn. The provision of VAT relief is subject to the following conditions: 1) from Nov-2023 to Jun-2024, VAT relief is provided at 100%, and 2) from Jul-2024 to Dec-2024, VAT relief is provided at 50%. Additionally, the government is offering a waiver of the IDR4 mn administration fee during the same period (provided 62k units in Nov-Dec 2023 and 220k units in FY24F), although its impact may be considered less significant as it is limited to subsidized housing. The anticipated impact of this new stimulus on the property sector is expected to be substantial. This positive development is likely to benefit all developers, especially those focused on landed housing. Among the top beneficiaries, we anticipate BSDE, CTRA, and SMRA to lead the way.

Exhibit 11. Anticipated Substantial Growth in 2024 Budget for Education and Social Protection



Source : State Budget for Fiscal Year 2024

Exhibit 12. Indonesia's average minimum wage is expected to rose by a modest 3.62% YoY in 2024



**Note: This percentage represents a proposal put forth by each provincial government.*
Source : CNN

B. Eagerly awaiting government moves to fill pockets

President Jokowi has revealed plans for an 8% salary increase for civil servants and a 12% raise for retirees in the upcoming year. This proposal was outlined in the 2024 APBN Law last September. To put this into action, Finance Minister has allocated a budget of IDR52 tn. Additionally, there are imminent adjustments in performance allowances or ASN tukin (tunjangan kinerja), with increments ranging from 10% to 20%.

Moreover, the government has issued Government Regulation (PP) Number 51 of 2023, amending Government Regulation Number 36 of 2021 on Wages on November 10, 2023. Beyond the 2024 UMP increase, the district/city minimum wage (UMK) is set to rise, with the announcement slated no later than November 30, 2023. Although not officially declared, the certainty of the 2024 minimum wage hike is derived from the application of the UM formula in PP Number 51 of 2023. The Ministry of Manpower outlines three variables in next year's UMP formula: 1) Inflation; 2) Economic growth; 3) Specific indices denoted by the symbol alpha or α. Regional Wage Councils determine these indices, taking into account labor absorption levels and average or median wages. Article 26 of the new regulation details the minimum wage calculation formula as follows:

$$UM\ (t+1) = UM\ (t) + \text{Adjustment Value } UM\ (t+1)$$

*UM (t+1) is the minimum wage to be determined.
*UM (t) is the current year's minimum wage.

Meanwhile, the adjustment value for the minimum wage is found using the following formula:

$$\text{Adjustment Value } UM\ (t+1) = (\text{Inflation} + (PE \times \alpha)) \times UM\ (t)$$

The symbol α is a specific index representing the labor force's contribution to the economic growth of the province or district/city ranging from 0.10 to 0.30. Another factor in determining this alpha is relevance to employment conditions. If the minimum wage adjustment from the calculation is equal to or less than zero, the minimum wage to be set will be the same as the current year's minimum wage.

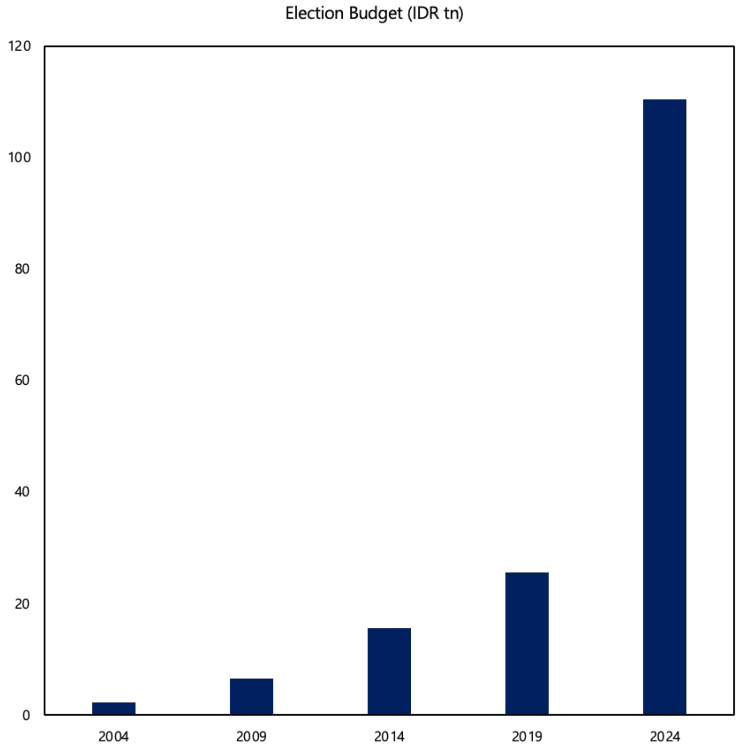
Several regencies have disclosed their minimum monthly wages for 2024, with the industrial hub of Bekasi City presenting the highest minimum wage. Jakarta remains the sole province where the minimum provincial wage, set at IDR5.07 mn/mo (+3.4% YoY), applies uniformly across all cities within its jurisdiction. **We believe it would be highly favorable if the government could implement a minimum wage increase of at least 8%, aligning with the raise in civil servant salaries.**

Exhibit 13. Non-Energy Subsidy Budget to Keep Soaring

Description	Outlook 2023	RAPBN 2024	% Change
A. Energy (IDR tn)	185.4	185.8	0.2%
a. Fuel	23.3	25.7	10.3%
b. 3kg LPG	91.2	84.3	-7.6%
2. Electricity	70.9	75.8	6.9%
B. Non-Energy (IDR tn)	**86.0**	**96.9**	**12.7%**
1. Fertilizer	25.3	26.7	5.5%
2. Public Service Obligation	5.9	8.1	37.3%
a. PT KAI	3.3	4.7	42.4%
b. PT Pelni	2.4	3.2	33.3%
c. LKBN Antara	0.2	0.2	0.0%
3. Interest Subsidy	47.0	53.8	14.5%
4. Tax (VAT) incentives	7.9	8.3	5.1%

Source : State Budget for Fiscal Year 2024

Exhibit 14. 2024 Election Budget Increased Substantially



Sources : MoF, KPU, MNCS Research

C. Examining the Transient Impact of Election Boost on Consumption

1. Election budget to rise 3 times from previous one

Stepping into 2023 signifies the commencement of a political year, a period historically marked by positive returns in both the stock and bond markets. However, a nuanced macro context suggests that 2023 may present challenges, despite the election budget hitting an unprecedented high and a lingering gloomy economic outlook. On a positive note, the commitment to sustainable growth is evident through the serious implementation of ESG practices across sectors. Initiatives like energy transition, industry down streaming, transformations in the transportation sector, and sustainable financing are poised to enhance Indonesia's competitiveness, notwithstanding the hurdles that demand attention, especially from the government.

We estimated that the impact of GE to boost consumption by IDR149.3 tn (0.7% FY23E nominal GDP), approximately three times higher than in 2019 due to increase in legislatives quota (+356) and additional provinces (+4 provinces from 2019) as well as 3 presidential candidates as they are topping electability according to recent poll by different survey houses. The logistical costs for a five-year democratic cycle appear to escalate during the transition from a pandemic to an endemic phase. Simultaneously held general elections are anticipated to have a multiplier effect, especially in bolstering domestic consumption.

Historically, in the last 4 cycles of political contests (2004, 2009, 2014 and 2019) real GDP growth was lower ahead of election and higher post-election (see exhibit 15). Besides, actors are waiting for clarity around the candidacy and program, we also need take into account external macro event that also affect the output dynamics. For instance, in 2004, Indonesia is still poised with commodity boom, in 2009 post global financial crisis, 2014 post taper tantrum and in 2019 overshadowed with US-China trade war and the beginning of Covid pandemic. All in all, we maintain our conservative view that a consumption boost narrative to likely be offset by a 'wait and see' action taken by corporation up until the program is much clearer particularly around the continuity of President Jokowi's national development program.

Exhibit 15. GDP Growth during Election Year

General election	Months	Quarter	During	-2Q	-1Q	+1Q	+2Q	Key Event
2004	Jul-Sep	3	5.47%	4.89%	5.17%	8.36%	6.86%	Commodity Boom
2009	Jul	3	4.57%	5.00%	4.54%	5.92%	6.25%	GFC
2014	Jul	3	4.93%	5.54%	4.94%	5.05%	4.83%	Post-Taper Tantrum
2019	Apr	2	5.05%	5.28%	5.06%	5.01%	4.96%	US-China Trade War & Covid
Average			5.01%	5.18%	4.93%	6.09%	5.73%	
Median			4.99%	5.14%	5.00%	5.49%	5.61%	

Sources : Statistic Indonesia, MNCS Research

2. Anticipating a more peaceful and safer, yet competitive political landscape

Indonesia is set to host its most extensive simultaneous elections on Feb. 14, 2024, when voters head to the ballot to elect the next president, vice president, lawmakers and councilors. Campaigning for Indonesia's 2024 general election has commenced, with three presidential hopefuls pledging a peaceful race amid concerns about potential religious and ethnic divisions. The three main candidates—current defense minister Prabowo Subianto and former governors Anies Baswedan and Ganjar Pranowo—are shaping a competitive three-way race.

If no candidate secures over 50% of the votes initially, a runoff is scheduled for June 26, 2024. The candidates commit to a 75-day campaign without politicizing ethnicity, religion, or race, and without resorting to bribery. Legislative elections, involving 18 political parties, will coincide with the presidential vote. At present, there are three sets of presidential candidates in the running: Anies Baswedan-Muhaimin Iskandar, Prabowo Subianto-Gibran Rakabuming Raka, and Ganjar Pranowo-Mahfud MD. **We assess that the commitment to a peaceful electoral environment extends beyond the candidates to the voters.**

Exhibit 16. Structural reform takes center stage for the three candidate pairs

Economy (GDP)	GDP Target : 5.5% - 6% Government Revenue : 13%-16% from GDP Debt to GDP Ratio < 30%	GDP Target : 7%	GDP Target : 6% - 7% Government Revenue : 23% from GDP
Healthcare	Improving access to health care, especially for JKN, by providing fiscal and non-fiscal incentives for health care	Improving access to health care for rural areas and digitalization of health services	Improving access to health care for rural areas and digitalization of health services
Poverty	Poverty Level <4%-5% (2029) Extreme Poverty = 0% (2026)	Poverty Level < 2.5% (2029) Extreme Poverty = 0% (2029)	Poverty Level < 6% (2029) Extreme Poverty = 0% (2026)
MSMEs	Inclusion of cooperatives and MSMEs in BUMN supply chains through partnership programs	50% of BUMN/D capital budget is used for UMKM development, with 40% of business space for UMKM in public facilities	Strengthening Business Credit
Industry	Improving oil production efficiency through enhanced oil recovery (EOR) methods	Implementing Industry 5.0 in the form of natural resource down streaming	Ensuring the availability of technology and improving local human resources to add value to commodities
Renewable Energy	Harnessing geothermal energy Early retirement of coal-fired power plants	Targeting 25-30% of Indonesia's energy from renewable sources in 2029	Developing green energy, such as biodiesel and bioavtur from palm oil, bioethanol from sugarcane and cassava, and also energy from wind and sun
ESG	Revitalization and rehabilitation of the environment Reuse, reduce, recycle, repair, and refabricate will be implemented to create a circular economy	Building more wastewater treatment plants. Restore Indonesia's nature	Net Zero Carbon Emission Use of bioplastic product
Social incentives (living spaces)	Building and renovating 10mn homes	Providing subsidized housing loan programs Providing affordable housing in a strategic location	The construction and renovation of 40 houses per village/subdistrict until 3 million houses are reached in the second year
Inflation	Controlling the prices of food and oil to control inflation to be at the level of 2%–3%. Agricultural Revolution to Curb Food Price Volatility	-	-
Job Opening	Job Opening : 15mn Gini coefficient : 0.36 - 0.37 (2029)	Job Opening : 17mn -	- -
Research and Development	Research and Innovation budget : 1% from GDP	Research and Innovation budget : 1% from GDP	Research and Innovation budget : 1.5% - 2% from GDP
Food Security	Ensuring the availability of infrastructure for the agricultural industry Building a food bank ecosystem, as a bridge between surplus and deficit parties	Expanding irrigation systems, farm roads, cold storage facilities, as well as processing and marketing of agricultural products	The development of the food estate program, with a target of 4 million hectares ready for harvest

Sources : Data from each candidate, MNCS Research

Exhibit 17. Several key program initiatives are poised to influence various sectors

Anies Baswedan / Muhaimin Iskandar

Key Initiatives	Impacted Sector
The development of the agricultural sector through policies of resource availability and competitive prices.	Agriculture Sector : AALI, SSMS, LSIP, TAPG, DSNG, HOKI
Financing innovation for the development of EBT	EBT-Related Companies : KEEN, ARKO, PGEO
Improving the intermediation function of banks, especially SOE banks	SOE Bank : BBRI, BMRI, BBNI
Providing incentives for manufacturing industries that absorb a large number of workers	Tobacco Industry : GGRM, HMSP, WIIM, ITIC
Leveraging Indonesia's strategic location between 2 oceans as a trading hub	Shipping Companies : SMDR, IPCC, TMAS, NELY Port Companies : IPCC dan IPCM
Strengthen Syariah economy	Syariah Banking: BRIS, BTPS
Strengthening the scope of JKN and building class A hospitals in remote areas	Hospitals : HEAL, MIKA, SILO
Enhancing the design of city layouts & public open spaces	Construction and Cement : ADHI, PTPP, INTP, SMGR
Strengthen research and herbal medicine	Pharmacy Companies : KLBF, KAEF, INAF

Ganjar Pranowo / Mahfud MD

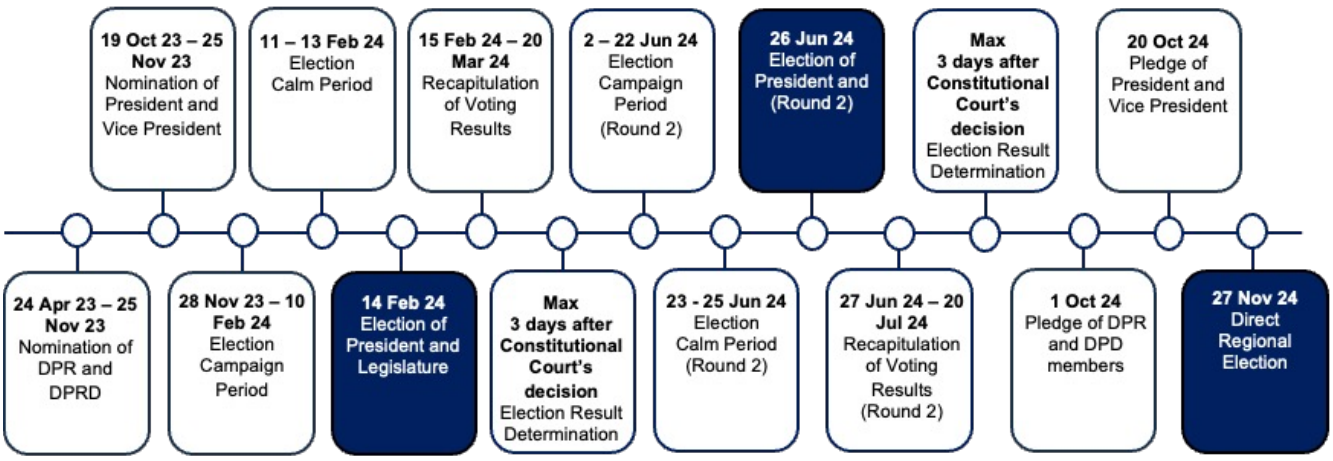
Key Initiatives	Impacted Sector
Implementing industrialization 5.0 to add value to the domestic products	Tech-Related Company especially in Software
Building infrastructure and connectivity for good and affordable internet quality	Telco & Tower co: TOWR, TBIG, MTEL, TLKM, ISAT, EXCL, FREN
Accelerate IKN development	State-owned construction and cement : PTPP, ADHI, SMGR, INTP Property companies that invested in IKN (BSDE dan PWON)
Strong state-owned companies	SOE related
Implementation of EBT with a target contribution of 25% - 30% of total energy used in 2029	EBT-Related Companies : KEEN, ARKO, PGEO
Creating circular economic (5R)	Recycling company : INOV

Prabowo Subianto / Gibran Rakabuming

Key Initiatives	Impacted Sector
Offering complementary milk and lunch to prevent stunting	Non-cyclical sector : ULTJ, DMND
Ensuring the availability of resources for the agricultural sector and food estates programs	Agriculture sector : LSIP, SSMS, BIPI, HOKI, DSNG
Continuing the development of IKN	SOE construction and cement : ADHI, PTPP, INTP, SMGR Property companies : BSDE, PWON
Implementing downstream processing & industrialization Nickel, Bauxite, Copper, Tin, Agro products, and Maritime resources, while concurrently devising innovative financing strategies to support these initiatives	Mining Sector : ANTM, INCO, TINS, MDKA, ADRO Agriculture sector : CPO - related
Strengthening working capital loan for MSME	BBRI
Reducing dependence on fossil fuels, as well as utilizing renewable energy and bioenergy	EBT Related: PGEO, ARKO, KEEN CPO companies that are developing bioenergy : TBLA, DSNG (Biodiesel)
Removing import duties for medical devices that cannot be produced domestically	Healthcare sector : HEAL, MIKA, SILO, BMHS, IRRA
Promoting the pharmaceutical industry through fiscal and non-fiscal incentive policies	Pharmacy

Source : Information from each presidential candidate is being analyzed and processed by the MNCS Research

Exhibit 18. Timeline for the Upcoming General Election



Source : KPU

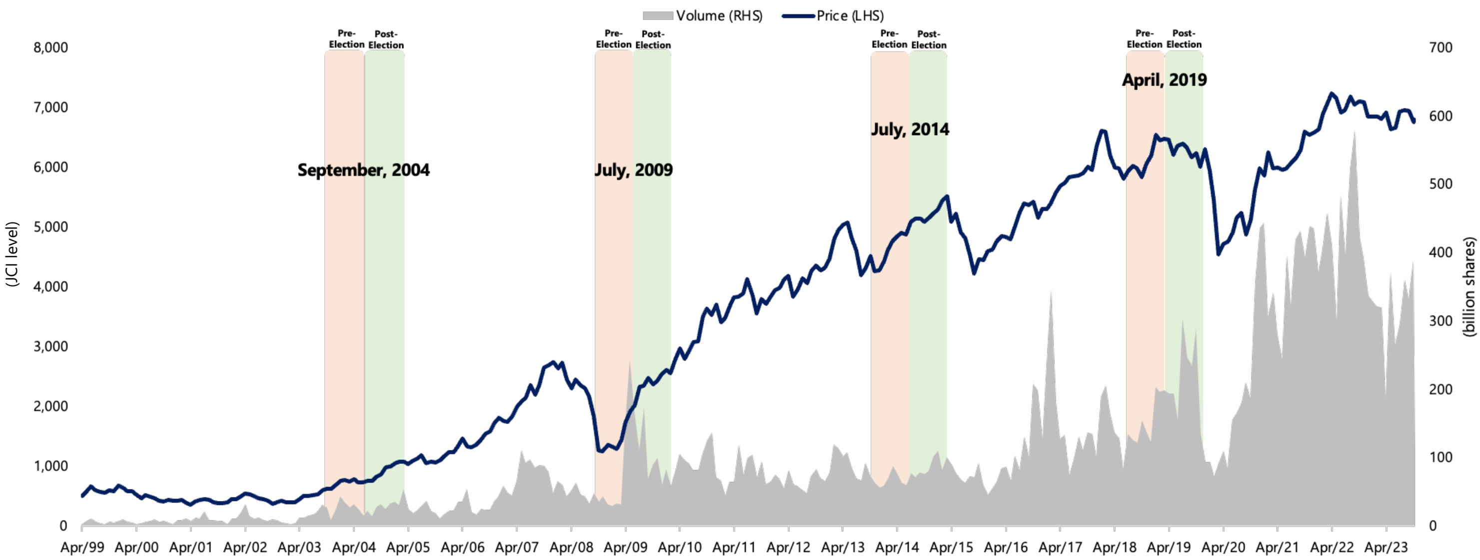
3. Which sector should we focus on?

Based on the general elections that took place from 2004 - 2019, the JCI experienced an average growth of **+22.44% in the 6-months before** the election, and +**16.05% in the 6-months after** the election. Only in 2019, the JCI experienced a slight downturn 6-months after the election, primarily influenced by the intensifying geopolitical trade conflict between the US and China.

As the campaign kicks off, candidates will delve into the specifics of their plans and programs, potentially influencing market sentiment based on what each contender has to offer. Historically, elections can influence various industries, and in the Indonesian context, specific industries might flourish as a result of heightened campaign activity and the implementation of more populist policies. The **consumer sector & cigarettes** often sees a boost as political campaigns stimulate economic activity, leading to higher consumer spending. Investors often strategize to capitalize on these opportunities as election-related developments unfold. **However, it's important to note that the specific impact on sectors can vary based on the policies and promises made by the candidates, as well as broader economic conditions.**

In fact, consumer staples emerged as one of the top-performing sectors in the aftermath of the elections (12 months post the 2004 & 2009) alongside **automotive, banks, property, and utilities sectors**. We also understand that specific factors during the period helped these sectors to outperform; thus, it is important to examine patterns while considering these factors. For example, banks, property, and toll-road operators may have experienced tailwinds from favorable interest rates leading up to the election.

Exhibit 19. JCI historical movement during election years



2004	
Election Date	20-Sep-2004
Return 6 mo Pre-election	10.9%
Return 6 mo Post-election	39.8%

2009	
Election Date	8-Jul-2009
Return 6 mo Pre-election	47.1%
Return 6 mo Post-election	26.7%

2014	
Election Date	9-Jul-2014
Return 6 mo Pre-election	21.3%
Return 6 mo Post-election	2.3%

2019	
Election Date	17-Apr-2019
Return 6 mo Pre-election	10.4%
Return 6 mo Post-election	-4.6%

Source : KPU, Bloomberg, MNCS Research

Exhibit 20. Sectoral performance during the election period 2004-2019

6 months before election

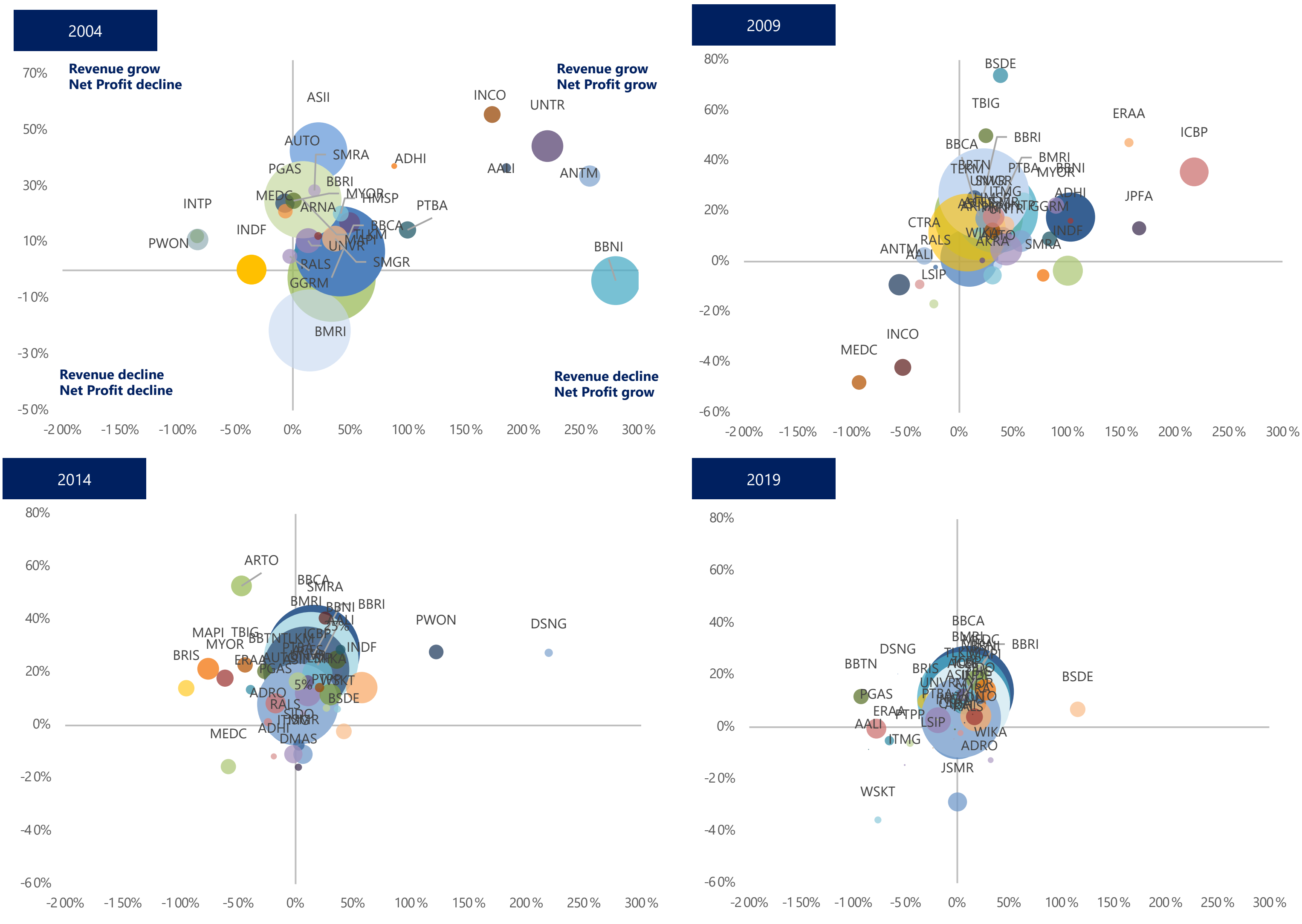
Sector	2004	2009	2014	2019
Auto	24.2%	36.3%	9.5%	12.2%
Banks	12.1%	58.4%	35.1%	27.4%
Cement	3.3%	33.8%	19.2%	37.8%
Cigarette	17.1%	78.5%	19.4%	2.7%
Coal	19.8%	98.5%	-0.5%	-23.0%
Construction	195.7%	44.8%	80.6%	59.7%
Consumer	-8.0%	55.6%	7.2%	7.9%
Industrial	18.0%	29.3%	15.2%	21.2%
Media	-19.8%	77.8%	17.1%	4.0%
Metal mining	3.4%	59.2%	39.9%	19.2%
Plantations	7.6%	55.3%	36.2%	5.9%
Property	1.5%	166.7%	45.1%	74.3%
Retail	4.2%	14.2%	13.7%	16.8%
Telco	19.8%	14.1%	18.9%	6.3%
Toll road	10.2%	36.3%	18.9%	15.4%
Utilities	-6.3%	67.5%	48.9%	0.8%

12 months after election

Sector	2004	2009	2014	2019
Auto	67.6%	215.5%	-25.1%	-51.6%
Banks	31.6%	53.9%	4.0%	-37.1%
Cement	58.7%	97.4%	-22.1%	-50.0%
Cigarette	8.9%	149.9%	-3.4%	-52.1%
Coal	63.5%	51.7%	-48.7%	-48.9%
Construction	28.0%	34.3%	57.7%	-64.4%
Consumer	15.8%	204.2%	-8.5%	-22.4%
Industrial	65.4%	58.9%	-16.9%	-41.6%
Media	13.0%	7.9%	-30.4%	-15.6%
Metal mining	66.2%	-6.1%	-38.1%	-3.2%
Plantations	82.0%	24.2%	-6.5%	-34.2%
Property	9.2%	103.8%	19.5%	-44.5%
Retail	-11.0%	78.1%	-29.9%	-39.7%
Telco	22.5%	-8.2%	-2.2%	-7.2%
Toll road	61.8%	11.8%	-11.3%	-12.4%
Utilities	186.5%	8.3%	-28.0%	-50.9%

*Notes :
1) We use stock movement data from our selected universe in the period both preceding and following the election date.
2) It's important to recall that the anomaly observed in the equity market in 2019 post-election was a result of escalating tensions in the US-China trade war, coupled with the onset of the Covid-19 pandemic.
Sources : Bloomberg, MNCS

Exhibit 21. Top & Bottom-line fundamentals during election



Note: X-axis “revenue growth”, Y-axis “net profit growth”
Sources : Bloomberg, MNCS

Exhibit 22. Three scenarios for how the Israel-Hamas conflict could evolve

Economic Impact of War

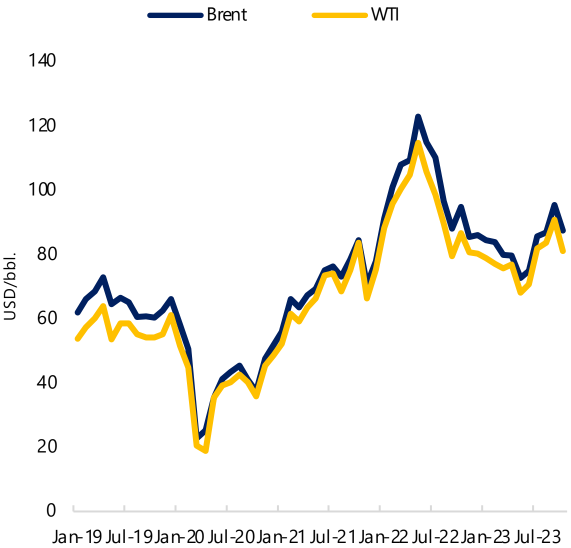
Global growth and inflation impact of three scenarios for how the Israel–Hamas conflict could evolve

Scenario	Details	Impact on oil prices and VIX*	Impact on global GDP and inflation**
Confined war	- Ground invasion of Gaza - Limited broader regional conflict - Lower Iranian crude output	Oil: +$4/barrel VIX: No impact	GDP: -0.1 ppts. Inflation: +0.1 ppts.
Proxy war	- Multifront war in Gaza, West Bank, Lebanon, Syria - Unrest in wider Middle East	Oil: +$8/barrel VIX: +8 points	GDP: -0.3 ppts. Inflation: +0.2 ppts.
Direct war	- Israel and Iran in direct conflict - Unrest in wider Middle East	Oil: +$64/barrel VIX: +16 points	GDP: -1.0 ppts. Inflation: +1.2 ppts.

Source: Bloomberg Economics
*Impact calibrated based on 2014 Gaza War, 2006 Israel–Lebanon War, and 1990–1991 Gulf War.
**Impact on year on year change in global GDP and inflation for 2024, estimated using Bayesian Global VAR

Source : Bloomberg Economics

Exhibit 23. Crude oil price movements remain stable with growth of 4.3% YTD



Source : Bloomberg as of Oct 31, 2023

D. Concerns about escalating geopolitical tensions

1. Middle East conflict poses an additional threat to the global economy outlook

The recent Middle East conflict has sparked market apprehensions regarding a potential surge in inflation, with implications for the global economy's stability. Given the region's pivotal role as a major energy supplier and a crucial shipping route, any turmoil in the Middle East can reverberate globally. We estimate that the impact may take time to become clear and depend on several factors such as the conflict's duration, intensity, and its potential expansion to other areas within the region. The most severe consequences of the conflict include: 1) Escalating oil prices and limitations on raw material supply; 2) Surging inflation and a deceleration in economic activity; 3) Elevated interest rates as a measure to curb inflation; 4) Heightened uncertainty in capital markets, prompting a surge for safe havens like USD and gold.

Conversely, Bloomberg Economics has conducted an analysis to gauge the probable consequences on global growth and inflation, exploring three distinct scenarios.

In the first scenario, where hostilities are confined to Gaza, the impact on global oil prices and the economy is expected to be limited. Tightened enforcement of US sanctions on Iran's oil could lead to a modest boost in oil prices, with Saudi Arabia and the UAE potentially offsetting the loss of Iranian barrels. However, this scenario hinges on the conflict remaining localized and not spreading to neighboring regions.

The second scenario presents a more complex picture as the conflict expands to Lebanon and Syria, evolving into a proxy war between Israel and Iran. This heightened geopolitical tension could lead to a 0.3% drag on global growth, primarily driven by a 10% jump in oil prices and increased risk aversion in financial markets. The potential for protests and unrest in various countries further adds to the economic challenges posed by this scenario, reminiscent of the Arab Spring.

The third and most severe scenario contemplates a direct military exchange between Iran and Israel, triggering a global recession. In this scenario, oil prices could soar dramatically, potentially reaching USD150/barrel. The geopolitical implications of such a conflict, including increased superpower tensions, could exacerbate the economic downturn, with a predicted 1% drop in global growth. This dark path highlights the broader consequences of geopolitical instability, underscoring the intricate interplay between global politics and economic outcomes.

We note that the present conflict is unfolding within the parameters of a "Confined War" scenario, resulting in minimal effects on the escalation of oil prices and global inflation. This is evident in the stable trajectory of both Brent and WTI oil prices. Additionally, there is an observed trend of disinflation in various developed countries.

2. Unpredictable another geopolitical condition

The escalating tensions in regions such as Russia-Ukraine, Israel-Hamas, and China-Taiwan are identified as key risk factors, with a notable 62% of businesses highlighting geopolitics as a very significant risk to the global economy. This sentiment is echoed by the IMF's projection of a global growth slowdown to 2.9% in 2024, marked by considerable divergence among regions. **Elections in major countries, including the U.S., U.K., South Africa, Mexico, India, Taiwan, and Russia, are poised to contribute to the unfolding narrative of global economic divergence.**

Geopolitical uncertainties are anticipated to trigger heightened investment in economic security, a trend expected to be driven by developed markets reshoring critical supply chains. There is any potential ramifications of conflicts such as the Russia-Ukraine scenario extending into 2024, potential spillover effects of the Israel-Hamas conflict into nearby states, and the economically consequential tensions between China and the West over competition and Taiwan. Supply chain fragmentation, exacerbated by geopolitical tensions and trade barriers, is identified as a factor contributing to economic fragmentation, potentially impacting global growth and fueling inflationary pressures.

Exhibit 24. Indicators forecast summary for FY24E

Macro Indicators	Unit	FY23	FY24E		
			Bull	Moderate	Bear
GDP Growth	%YoY	4.9*	5.1	5.0	4.9
CPI	%YoY	2.6	2.5	2.9	3.5
7-Day RRR	%	6.00	5.50	5.75	6.00
IDR/USD	Points	15,416	15,125	15,550	16,050
Risk Free Rate	%	7.1	6.1	6.3	6.6
JCI	Points	6,851	8,100	7,700	6,900
Implied EPS Growth	%YoY	8.0	8.0	3.0	-7.0
Implied P/E	x	14.0	15.7	15.0	13.5

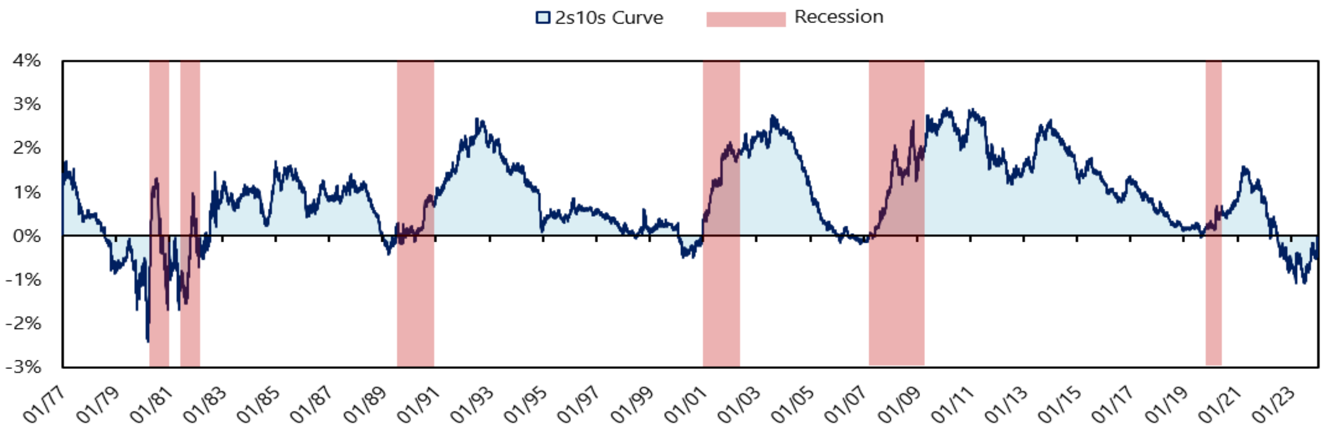
Sources : Bloomberg,MNCS (*NOTES: Based on GDP 3Q23)

Bond Strategy

Gauging where the Treasury yields are headed for

The US Treasury yield had entered into an inversion in its 2s10s curve, historically notorious as a premonition of an economic recession, in July 5, 2022 and has remained inverted ever since. This was what has kept the market at large on the edge of their seats, while the bond bulls have been waiting for the perfect time of entry.

Exhibit 25. UST 2s10s inversion (dipping below 0%) is historically shown to precede US recession



Sources : Bloomberg, MNCS

We think that the labor market will soon succumb to the monetary restrictions imposed by the Fed, in turn prompting the commencement of the long-awaited rate cutting cycle (now priced in by the market to begin by 1Q23). This would be in tandem with (or preceded by) the bull-steepening (or plummeting of the front-end of the curve; the UST 2-yr) and uninversion of the UST 2s10s curve, and so we should observe a generally declining trend in yields, as has been shown historically. We note that the Bloomberg consensus estimate for UST 10-yr yield for FY24E stands at ~3.7%.

Exhibit 26. UST 2s10s inversion is historically shown to precede US recession

	Double-dip (1)	Double-dip (2)	Double-dip (3)	Gulf War	Dot-com	GFC	Covid-19	Now
2s10s inversion (days)	623	407	177	470	321	525	7	549
Inversion to US GDP contraction onset (days)	60	69	76	277	95	300	211	-
US GDP contraction (days)	183	180	91	179	180	457	92	-

Sources : Bloomberg, MNCS

There are, however, potential curveballs for this year. The first is that of the Fed's current balance sheet posture; they are currently sitting on USD7.68tn of balance sheet after the Covid-19 stimulus injections and QE, which begs the question on when will they plan on continue offloading their balance sheet which they have continued doing since its peak of USD8.96tn in Apr-22 (yields might linger higher if they do so in FY24E). Another risk worth noting is The BoJ's impending rate hike execution; putting an end to the negative interest rates era could drive JGB yields higher and incentivize the repatriation of UST positions owned by the Japanese, which in turn could drive UST yields higher. Other worrying developments that serves as risks against the bull run of USTs could be the flurry of corporate bonds supply anticipated for this year on the back of FY23E's solid earnings, as well as fiscal expansions that would deem heavier UST supply pressures.

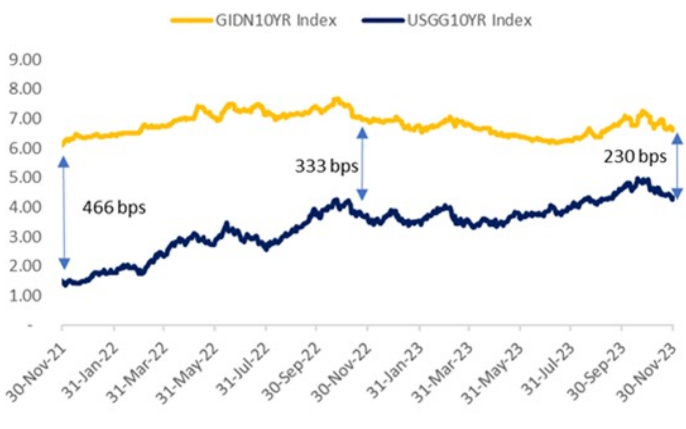
Measuring Yield Terrain with Potential Rate Cut Tailwinds

The spread between Indo GB and UST is gradually contracting, declining from 4.66% in Nov-21 to 3.33% in Nov-22, and further narrowing to around 230 bps by the conclusion of Nov-23 (refer to Exhibit 27). During December 3, 2023, Indonesia's 5-year investment risk premium (CDS) showed a downward trend, standing at 75.71% compared to 97.39% on October 29, 2023. We observed this decline being trailed by a flow of foreign funds amounting to IDR23.5 tn into SBN in November 2023 (Exhibit 28).

The US inflation suggests a potential easing in 2024, with the FFR expected to range between 4.75% to 5.00%. Consequently, the forecast for the 10-year UST yield indicates an approximate year-end target within range of 3.50% to 4.00%. In light of these expectations, we predict that BI may implement interest rate reductions, potentially two to three cuts within the range of 5.25% to 5.50%.

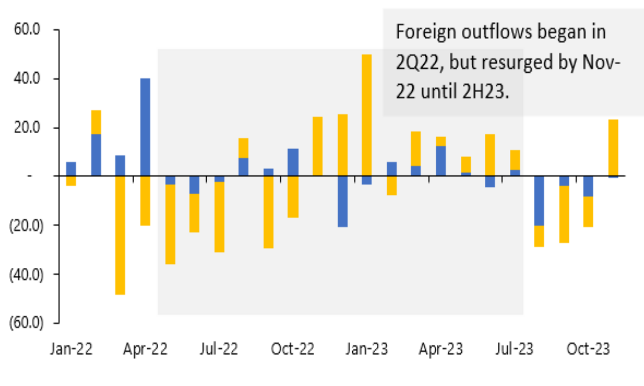
In our assessment, the chances of a rate cut are poised to rise in 2Q24. If a mild recession hits the US and the Fed implements an anticipated rate cut in that quarter, the widening gap between BI7DRR and the Fed Funds Rate could present an opportunity for stabilizing the Rupiah. With a reduced likelihood of inflationary pressures during this period due to the expected wane in the impact of El Nino, Bank would have more leeway to strategically reduce interest rates in 3Q24.

Exhibit 27. Narrowing spread from UST10Y and GIDN10Y



Sources : Bloomberg, MNCS

Exhibit 28. Foreign Outflows from Indo GB

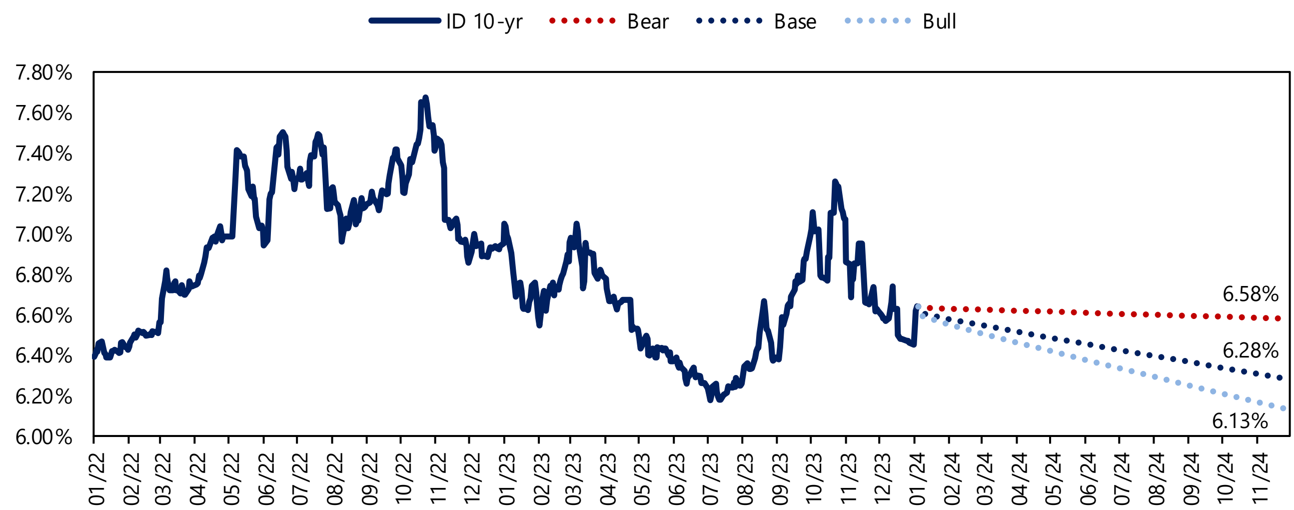


Sources : MOF, MNCS

What this entails for the Indo GB yields

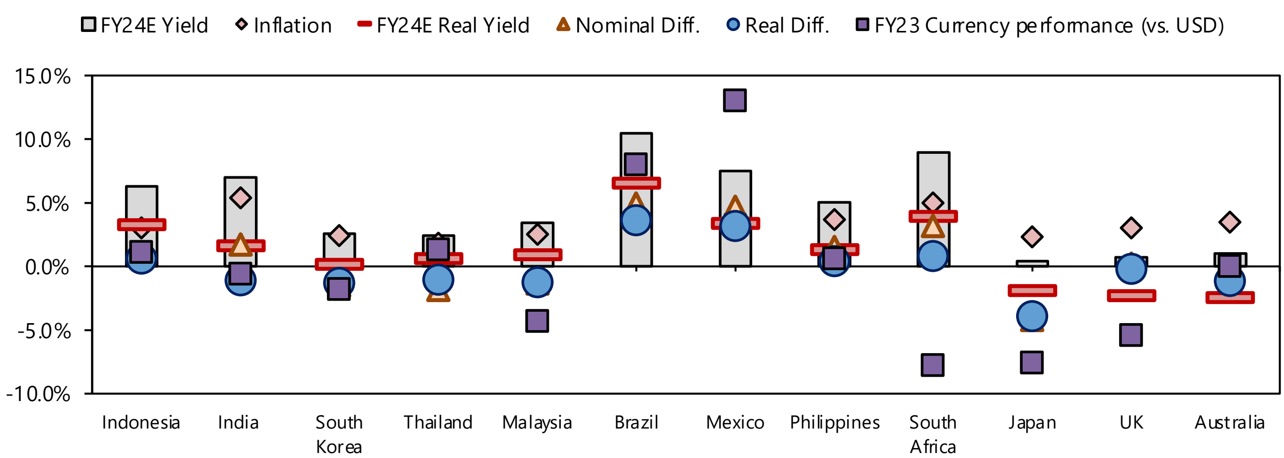
Though the general trend for bond yields should be of a declining one on the onset of 2s10s steepening, we anticipate, however, for the Indo GB 10-yr yields to initially take the back seat and surge higher as the fund flow hoards toward the UST, incurring a lag period of 1-2 months before tumbling down, as has been seen in the 2020 and 2008 crises. We project the Indo GB 10-yr movement in FY24E to assimilate through 3 possibilities: 1) 6.28% as a base case; 2) 6.58% as a bear case; and 3) 6.13% as a bull case.

Exhibit 29. FY24E Indo GB 10-yr yield projection



Sources : Bloomberg, MNCS

Exhibit 30. Indonesian real yield projection in FY24E stands competitively against its EM and DM peers



Sources : Bloomberg, MNCS

While we think that the real yield offered by Indo GB in FY24E would be competitive at 3.3% (assuming an inflation rate of 3.0% in FY24E) against that offered by its emerging market (EM) peers of 2.4% and developed market peers of -1.4%, flows could potentially be hampered if foreign flows favor the higher Brazilian (6.6%), South African (3.9%) and/or Mexican (3.4%) real yields in FY24E. Another risk that might hamper a potential Indo GB bull run would be the addition of IDR666.4tn of SBN issuance to cover the planned 2.29% state budget deficit.

Equity Strategy

A. Unveiling the Thrills and Turns of 2023 in Snapshot Recap

In 2023, the global stock market encountered several economic challenges. The impact of pandemic-driven economic stimuli is steering movements in the investment market, yet concerns about a potential recession loom large, particularly with the US interest rates on a decreasing trajectory amidst inflationary risks. Notably, Mar-2023 witnessed risk fluctuations in US small to middle-class banks, intensifying market anxieties. Despite reopening its economy ahead of schedule, China grapples with hurdles in its economic recovery. However, as the 2H23 unfolds, a shift in sentiment brings hope for the market to move from stagflation to a soft-landing narrative though concerns lingered about prolonged high-interest rates. Meanwhile, Indonesia faces parallel challenges in adapting to the post-pandemic environment. Substantial drops in key commodity prices and spikes in oil and food commodity prices, including rice, present major headwinds, leading the central bank to unexpectedly raise interest rates in Oct-2023.

Exhibit 31. Global Index Return (%)

	1M	3M	6M	YTD	1Y	PE (x)	PBV (x)
Indonesia							
JCI	2.71%	4.80%	9.17%	6.16%	3.65%	17.50	2.01
LQ45	4.36%	1.88%	2.63%	3.80%	0.38%	14.43	2.07
IDX30	3.11%	0.38%	0.80%	1.71%	-0.28%	14.11	2.16
Asian Market							
HSEI	0.03%	-4.28%	-9.88%	-13.82%	-17.46%	8.53	0.94
Shanghai	-1.81%	-4.36%	-7.09%	-3.70%	-3.79%	11.23	1.26
Nikkei	-0.07%	5.04%	0.83%	28.24%	25.60%	23.94	1.87
Singapore	5.44%	0.71%	1.07%	-0.34%	-5.36%	10.61	1.10
Malaysia	0.13%	2.14%	5.66%	-2.73%	-3.08%	14.56	1.30
Vietnam	3.27%	-2.10%	0.87%	12.20%	10.81%	12.23	1.65
Philipines	3.64%	2.04%	-0.28%	-1.77%	-3.92%	12.27	1.57
Thailand	2.58%	-3.78%	-5.80%	-15.15%	-17.09%	17.26	1.41
Global Market							
DJIA	4.84%	12.48%	9.54%	13.70%	13.70%	21.57	4.84
S&P 500	4.42%	11.24%	7.18%	24.23%	24.23%	21.46	4.45
Nasdaq	5.52%	13.56%	8.87%	43.42%	43.42%	35.93	5.91
FTSE	3.75%	1.65%	2.68%	3.78%	3.78%	11.15	1.69
CAC	3.18%	5.72%	1.93%	14.38%	16.52%	12.94	1.79

Source : Bloomberg, as of Dec 29, 2023

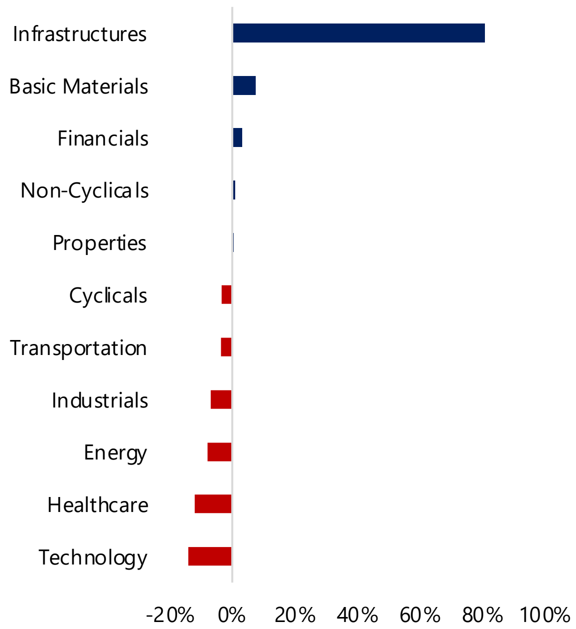
Global Stock Market Celebrations Over the Last Month of 2023

As we wrap up 2023, the majority of global stock market indices have displayed positive performance. Notably, the US stock market witnessed a noteworthy surge, with the DJIA (+13.70%), S&P500 (+24.23%), and Nasdaq (+43.42%) all experiencing robust growth. Simultaneously, stock markets in other nations, such as CAC (+14.38%) and Nikkei (+28.24%), also witnessed substantial increases. The rally in the stock market is attributed to a global risk-on sentiment, fueled by the dovish stance of several central banks—especially in developed countries—and the anticipation of more assertive interest rate cuts in 2024.

China Stands Alone, Lagging Behind. China stood alone in recording negative performance on the stock market during FY23, marked by corrections in the SSE Composite Index (-3.70%) and HSEi (-13.82%). The initial investor optimism, fueled by reopening sentiment at the year's onset, gave way to apprehensions amid the persistent crisis in the property sector, sluggish economic recovery, and fiscal and monetary stimulus that fell short of expectations. This suggests a continued trend of investor sell-off throughout 2023.

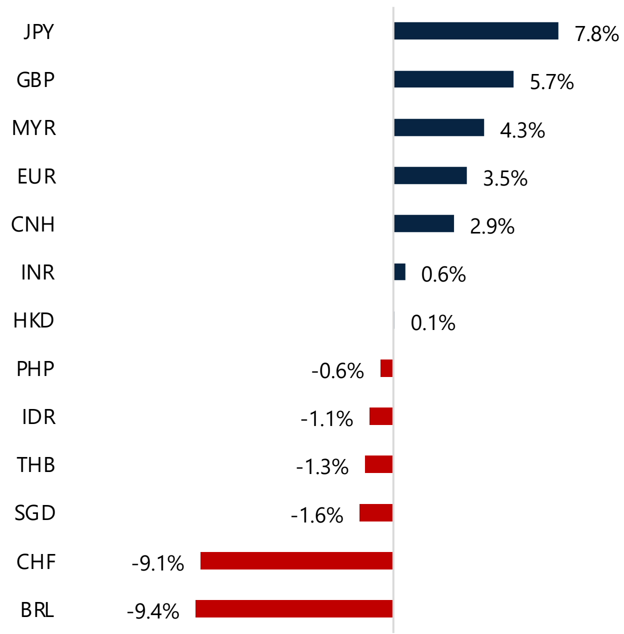
Indonesia Joins the Celebration. In the regional landscape, JCI stands out as one of the top-performing markets, following closely behind Vietnam. JCI trades at 15.5x PE which is cheaper than markets such as Thailand, India, or Japan. Throughout FY23, the JCI displayed a noteworthy uptrend of +6.16%, concluding at 7,273 as of December 29, 2023. This aligns with the consensus estimations which foresaw the JCI's base case scenario falling within the 7,200 range. The upswing in the JCI during 2023 was primarily driven by noteworthy gains in several conglomerate stocks, with CUAN (+6,002%), BREN (+871%), and AMMN (+281%) experiencing significant surges. Remarkably, BREN even secured the position of the issuer with the second-largest market cap, trailing only behind BBCA though its trade at thin liquidities.

Exhibit 32. IDX Sectoral Return in FY23



Source : Bloomberg, as of Dec 29, 2023

Exhibit 33. Rupiah stands strong, a regional frontrunner



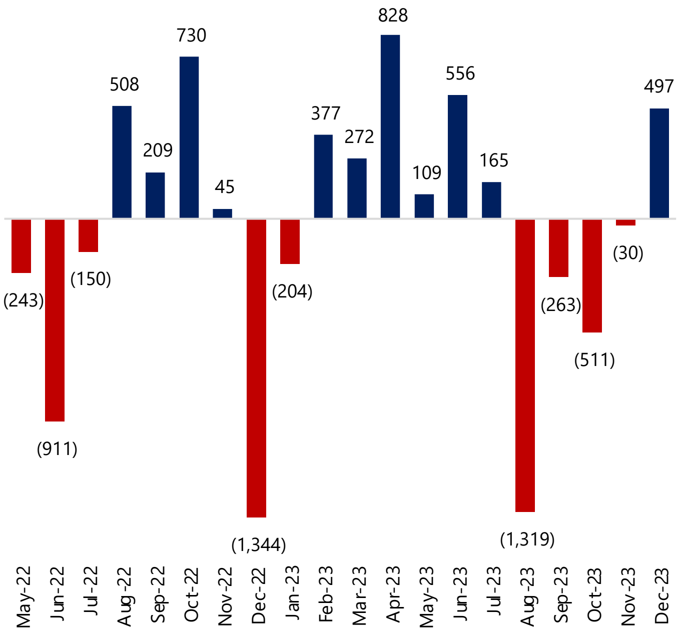
Source : Bloomberg, as of Dec 29, 2023

B. Foreign Mutual Fund Positioning has begun to enter the market

The infrastructure sector took the lead with an impressive +80.7% YTD, mainly due to a significant upswing from BREN. As the year drew to a close, the financial and basic materials sectors started catching up. However, technology (-14.1%), healthcare (-12.1%), and energy sectors (-7.8%) showed some weakness. Notably, the observed correlation suggests that an augmented presence of stocks influenced by non-fundamental flow could precipitate a reduction in the weight of large-cap stocks with robust fundamentals and an imbalance where non-fundamental flow-driven stocks, often undervalued, contribute to an inflated perception of market valuation and leading to market distortion.

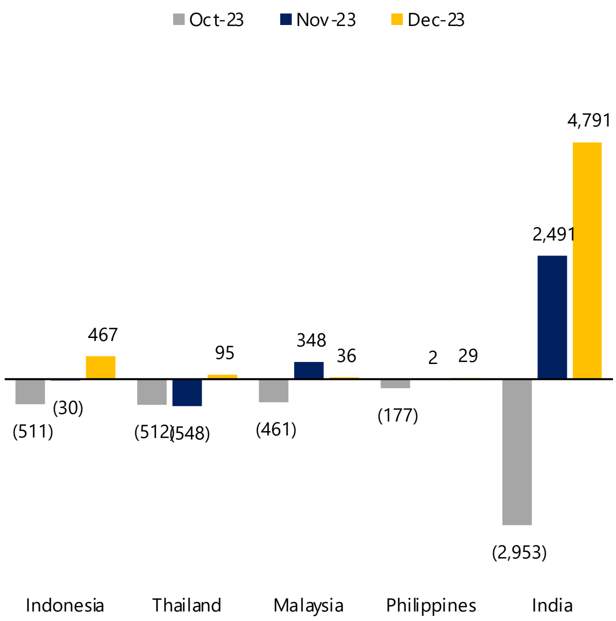
Fortunately, the year concluded on a positive note with an uptick in the value of large-cap stocks in Dec-2023, complemented by a substantial return of foreign investors to the Indonesian stock market, amounting to USD497 mn. Despite this positive development, it's noteworthy that throughout 2023, foreign investors overall recorded a net sell-off of USD353 mn. Nevertheless, we are still mindful of the possibility that the global investors, who currently lean towards underweight positions in the global equity asset class, might experience a relatively swift upswing once the rate cuts become more pronounced.

Exhibit 34. JCI Monthly Fund Flows (USD mn)



Source : Bloomberg, as of Dec 29, 2023

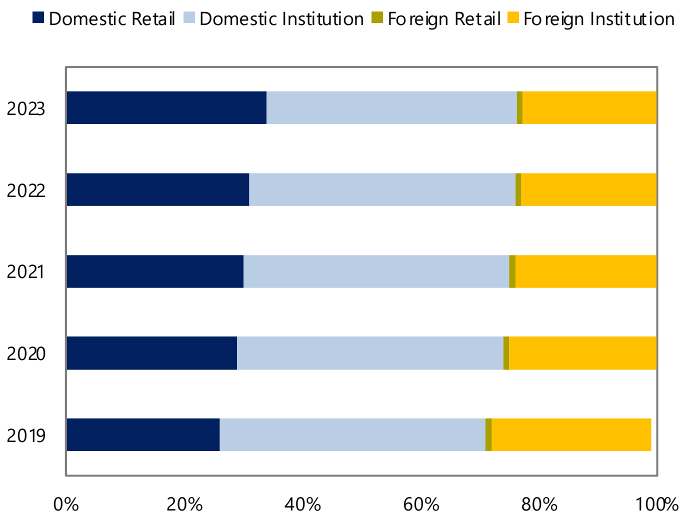
Exhibit 35. Regional Fund Flows (USD mn)



Source : Bloomberg, as of Dec 29, 2023

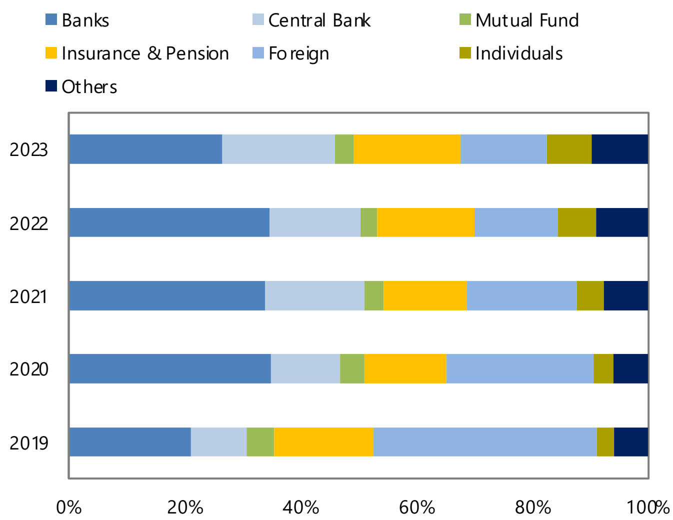
We also note that domestic investors, especially retail investors, continue to hold a predominant position. As at the end of Dec-23, retail stock ownership has accounted ~34% across sectors, in contrast to Dec-19 that only account for ~26%. On the other hand, this phenomenon also occur in the government bond market. As foreign investors net sold, domestic investors step in as a net buyer. Higher yield environment combined with aplenty liquidity in the banking system have forced long term investors such as pension fund and insurance are pouring their money to bond market in search of better yield and risk-return strategy. All in all, the changing landscape of financial asset class holders will likely to help domestic market to be more resilient going forward and this also reflect a financial market deepening.

Exhibit 36. Stock Ownership by Investor Type



Source : KSEI, as of Dec 29, 2023

Exhibit 37. Govt. Securities Ownership by Investor Type



Source : DJJPR, as of Dec 29, 2023

Exhibit 38. Change in MoM Mutual Fund Investors (Relative to JCI Weight)

Domestic Investor

Sector	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Energy	-0.19%	-0.05%	-0.09%	-0.22%	-0.11%	-0.01%	0.00%	-0.11%	-0.11%	0.03%
Basic Materials	-0.08%	-0.06%	-0.07%	-0.12%	0.02%	0.04%	-0.07%	0.07%	-0.02%	-0.08%
Consumer Cyclicals	-0.08%	-0.08%	0.00%	0.01%	-0.10%	-0.29%	-0.02%	-0.17%	0.01%	0.07%
Consumer Non-Cyclicals	0.03%	-0.20%	-0.09%	0.03%	-0.07%	0.04%	-0.40%	-0.07%	0.07%	-0.16%
Financials	-0.03%	-0.03%	0.07%	-0.02%	0.07%	-0.10%	0.00%	-0.08%	0.07%	0.03%
Healthcare	0.04%	-0.08%	-0.03%	-0.05%	0.05%	-0.11%	0.04%	-0.08%	0.09%	0.01%
Industrials	-0.02%	0.01%	-0.16%	0.02%	-0.12%	-0.15%	-0.03%	-0.11%	-0.08%	-0.08%
Infrastructures	-0.05%	-0.27%	-0.16%	0.03%	0.00%	-0.12%	0.00%	-0.23%	-0.14%	-0.05%
Properties & Real Estate	-0.05%	-0.07%	-0.04%	0.02%	-0.26%	-0.50%	-0.02%	-0.04%	0.05%	0.15%
Technology	-0.06%	-0.11%	-0.12%	-0.21%	-1.76%	-0.04%	-0.35%	-0.01%	-0.26%	0.80%
Transportation & Logistic	0.07%	-0.03%	-0.04%	-0.27%	0.01%	-0.02%	0.07%	0.01%	0.03%	0.02%

Foreign Investor

Sector	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Energy	0.00%	0.00%	-0.02%	0.00%	-0.03%	-0.03%	0.02%	0.19%	0.01%	-0.04%
Basic Materials	-0.01%	0.04%	0.03%	0.01%	-0.07%	-0.01%	-0.08%	0.21%	-0.01%	0.03%
Consumer Cyclicals	0.01%	-0.02%	0.00%	0.03%	0.04%	0.23%	-0.01%	0.00%	-0.09%	-0.07%
Consumer Non-Cyclicals	-0.04%	-0.11%	0.00%	0.00%	-0.08%	-0.02%	0.01%	-0.01%	-0.02%	-0.02%
Financials	0.02%	0.01%	0.51%	-0.13%	0.02%	-0.07%	0.01%	0.02%	0.05%	-0.04%
Healthcare	-0.02%	0.05%	0.00%	-0.01%	0.02%	0.23%	0.08%	0.04%	-0.01%	-0.45%
Industrials	-0.01%	-0.05%	0.05%	-0.01%	0.02%	-0.18%	-0.05%	-0.09%	-0.01%	-0.58%
Infrastructures	0.05%	0.02%	0.09%	-0.09%	-0.06%	-0.17%	-0.05%	-0.31%	0.04%	0.02%
Properties & Real Estate	-0.01%	0.01%	0.00%	0.00%	-0.02%	0.00%	0.01%	0.00%	-0.01%	-0.02%
Technology	0.04%	0.93%	-0.02%	-0.01%	1.87%	-0.11%	-1.45%	0.38%	-0.08%	0.30%
Transportation & Logistic	0.07%	0.00%	-0.01%	-0.01%	-0.01%	0.00%	0.00%	-0.04%	0.01%	0.01%

Source : KSEI, as of Nov-23

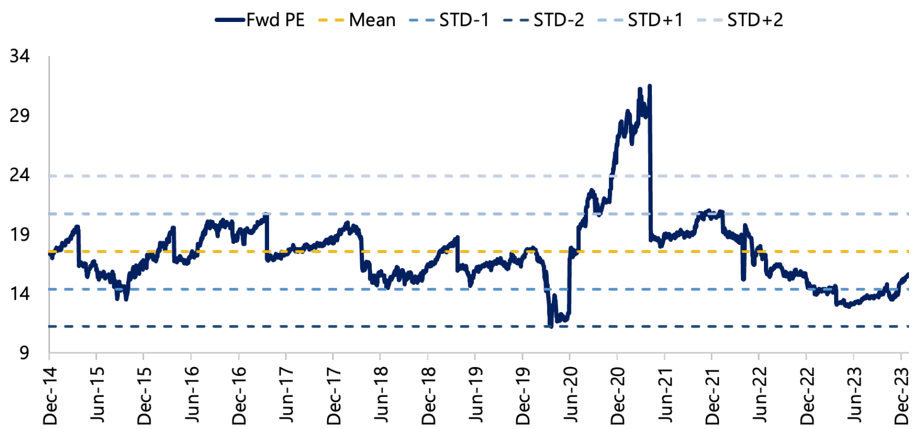
C. JCI Base Case: Target set at 7,700

In the face of political challenges in Indonesia, we foresee a positive trajectory for the JCI, especially with the upcoming democratic party in February 2024. Historical patterns indicate that Indonesian politics and elections have historically benefited the market. Yet, investors exercise caution as they carefully anticipate positive outcomes. Analyzing the JCI's behavior in the past four general elections reveals a usual pre-election year volatility. However, during the election period, the JCI tends to rally, followed by positive movements in the subsequent years—likely fueled by expectations of improved economic conditions under a new presidential administration.

We maintain a positive outlook on JCI's potential for higher EPS growth in FY24E. Our target for the base case scenario relies on a 3%-8% EPS growth forecast (vs Bloomberg consensus est. at +8.58%), leading us to uphold our **fundamental JCI target of 7,700 for the base scenario, 6,900 for the bear scenario, and 8,100 for the bull scenario, implying a PE range of 13x-15x (-1 STD level).** The outcome is largely contingent on the Federal Reserve's decision on interest rates and whether Bank Indonesia will align its rates to avert a recession. Anticipating the banking sector to be the primary driver with a 13% growth in EPS for 2023F, we also expect the recovery of the utilities and property sectors in the coming year.

In 2024, we anticipate a shift towards market stability following a period of significant adjustment in global financial markets. Despite lingering challenges, there are opportunities for savvy and strategic investments. The key lies in maintaining flexibility and promptly responding to evolving market dynamics. However, brace for short-term turbulence as the JCI is poised to display volatility. The index's ascent beyond 7,300 might induce any profit-taking, particularly among stocks that have surged amidst low trading liquidity.

Exhibit 39. JCI Forward PE Band



Source : Bloomberg, as of Dec 29, 2023

D. Sector Rating and Stock Selection

Earnings resilience is prominent in the banking and telecom sectors, while a decline in commodity prices will benefit cement and poultry industries. As we anticipate the peak of the rate-hiking cycle and a growing pivot expectation in 1H24, tech and property sectors appear to be the most sensitive, although their profitability trajectory remains crucial. As macro policy easing favors cyclicals, we maintain selective defensives, especially considering the market sentiment driven by elections, rate cut and uncertainties surrounding growth recovery. Strong fundamental figure and dividend proxies, along with rate-sensitive proxies, are preferred during this period. In 2H24, clearer visibility on the growth recovery may lead to improved performance in cyclicals, benefiting banks and consumer cyclicals. However, we remain neutral on coal and construction.

Our top picks consist of multiple sectors as we believe diversification would reduce risk during uncertain time. We choose **BMRI** on the back of their earnings growth outperformance in FY23 and the likelihood to record double digits growth of EPS in FY24F as well as high dividend payout ratio. **BRIS** stands out in the banking sector with the highest earnings growth rate by +30% YoY in Nov-23, aligning with a substantial increase in financing growth at +14% YoY. Notably, BRIS maintains prudent asset quality, evidenced by a decrease in gross NPF to 2.15%. Looking forward, the bank possesses a significant growth potential with nearly 20 mn customers and a relatively low sharia banking penetration, promising a favorable outlook.

Despite peaking rates, 1H24 remains uncertain given the growth weakness and tight liquidity, as well as the election sentiment. Hence, our preference remains inclined towards defensive plays, particularly with **TLKM**, poised to unlock the value of its data center business and present an appealing dividend yield. The populist policies gaining traction during the election momentum are anticipated to bolster purchasing power, positioning **HSMP** to benefit from this upswing. As the central bank gears up for a pivot expected to commence in 1H24, we foresee favorable outcomes for rate-sensitive sectors, including property with **BSDE and SMRA** as our top picks. This shift also bodes well for highly leveraged sectors like infra & utilities. Our attention is directed towards **JSMR**, supported by the recycling of toll road assets, which is expected to aid toll road operators in enhancing cash flows and reducing debt exposure. Lastly, we also add **PGEO** as our alpha stock that we think would reap the benefit from the green-transition momentum, being directly under the government's wing.

Automotive
Overweight

A Closer Look at the Dynamics of EV competition

4W: Buckling up as Toyota is confident to take on the EV competition
Toyota has put into plan the unveiling of their 10 EV models which they have targeted to reach 1.5mn in sales annually by FY26F. They also plan to establish a business unit which will solely focus on the EV market segment. So far, Toyota (including Lexus) only has 3 EV models in their portfolio, achieving merely <25k units of sales in FY22 globally. ASII is also actively endorsing the introduction of such EV products, considering Toyota holds >50% of Indonesia's automotive market share. We assess that this plan entails a more cutthroat competition amidst the entrance of Chinese and Korean players into the Indonesian market. Nevertheless, due to a unique feature of the Indonesian market, car factories need to consider the merit in after-sales service as a strategy to win over the domestic customers. Currently the domestic EV market is predominated by Hyundai and Wuling products, each holding up to ~51% and ~34% in 10M23, and if ASII has any chance of getting the upper hand it would be through "disrupting" the hegemony of those two EV giants.

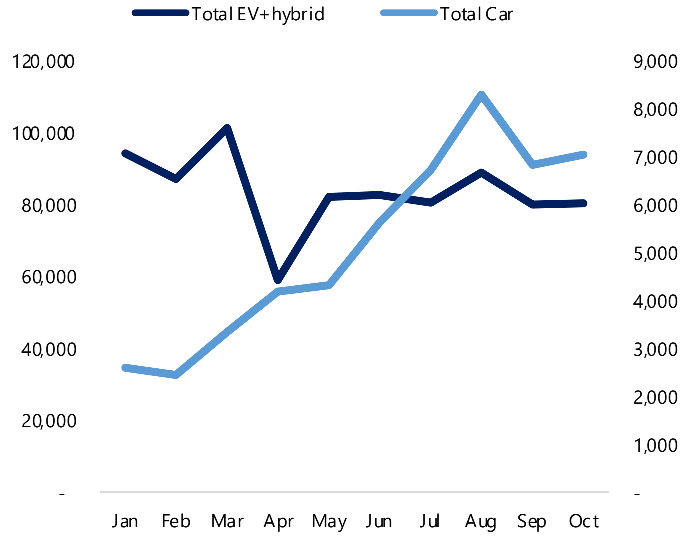
EV Incentives are to continue into FY24F
The government plans to extend the EV incentive program, especially pertaining to the 2W segment. Incentive amounting to IDR7mn/unit for new units and the conversion from conventional to electric will carry on at least until the end of FY24F. Accommodating policies such as fiscal incentives, import duty lifting and tax incentives will also be implemented to accelerate the development of the domestic EV ecosystem. After effectuating a 1% state income tax policy for EV purchases within the country, the government now contemplates on mandating a tax-free policy for imported completely built-up (CBU) EVs. Concurrently, the government is also pushing for factories to built domestically, similar to Thailand's strategy, which allowed them to successfully grow their production rate to 10% from 2%.

Risk: Semiconductor supply hampered by China
Lately, China has banned the exports of gallium and germanium, potentially impacting the industries that require semiconductors as part of their production line. This is because gallium and germanium are one of the common components of semiconductors used in EVs, and ~60% and ~90% of germanium and gallium, respectively, are sourced from China. A country willing to purchase gallium and germanium from China requires that country to pass China's national security screening, hence the already restrictive distributional policy. We view a potential upside to those metal prices due to the likelihood of the supply chain experiencing hindrances, be it production and/or logistical slowdowns.

Recommendation: Overweight with Top Picks ASII (BUY, TP: IDR6,700) and AUTO (BUY, TP : IDR3,500)
We remain Overweight on the automotive sector given: a) potential to achieve the target of 1mn units of car sales and 6.2-6.5mn units of motorcycle sales in FY24F, b) EV sales incentives, c) increased use of domestic components, and d) huge investment in EV development in Indonesia. Our top picks in the sector are **ASII IJ (BUY; TP: IDR6,700)** and **AUTO IJ (BUY; TP:IDR3,500)** as currently, the stock is trading slightly below -1STD (5-yrs avg) with PE ratio at 7.5x/6.9x level. Downside risks: USD/IDR rate, rising inflation and interest rates, and semiconductor chip shortage.

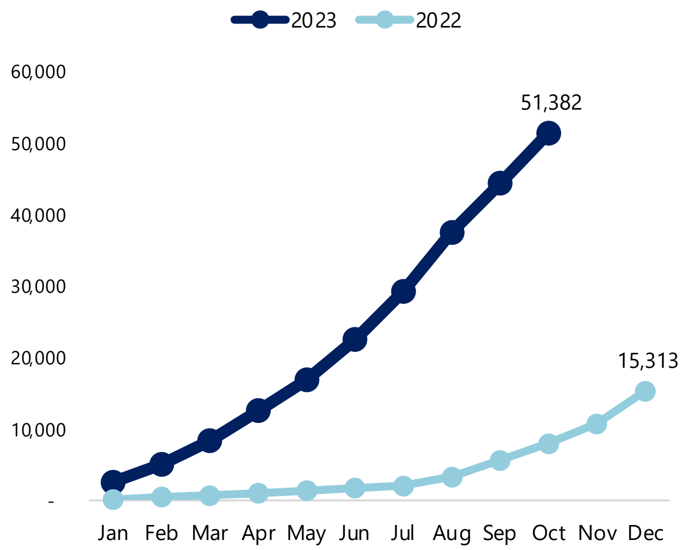
Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
ASII IJ	234.8	8.2	8.2	1.1	1.0	BUY	6,700
AUTO IJ	19.4	9.4	8.4	1.0	0.9	BUY	3,500

Exhibit 40. EV and Hybrid Sales are relatively stable compared to conventional cars in FY23E



Sources : Gaikindo, MNCS

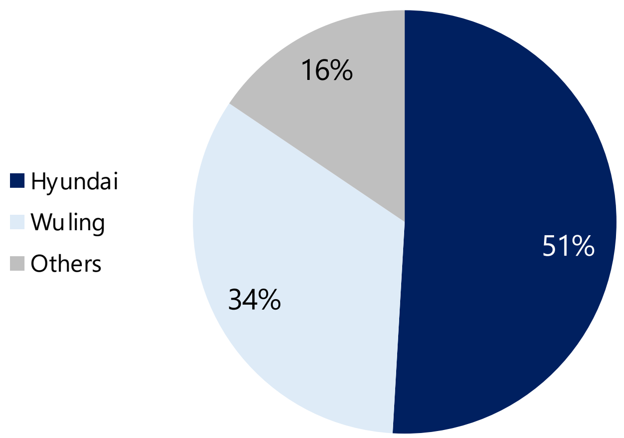
Exhibit 41. EV Car Sales in 10M23 Have Exceeded FY22 achievements



Sources : Gaikindo, MNCS

Exhibit 42. Hyundai and Wuling dominate the EV car segment in Indonesia (as of 10M23)

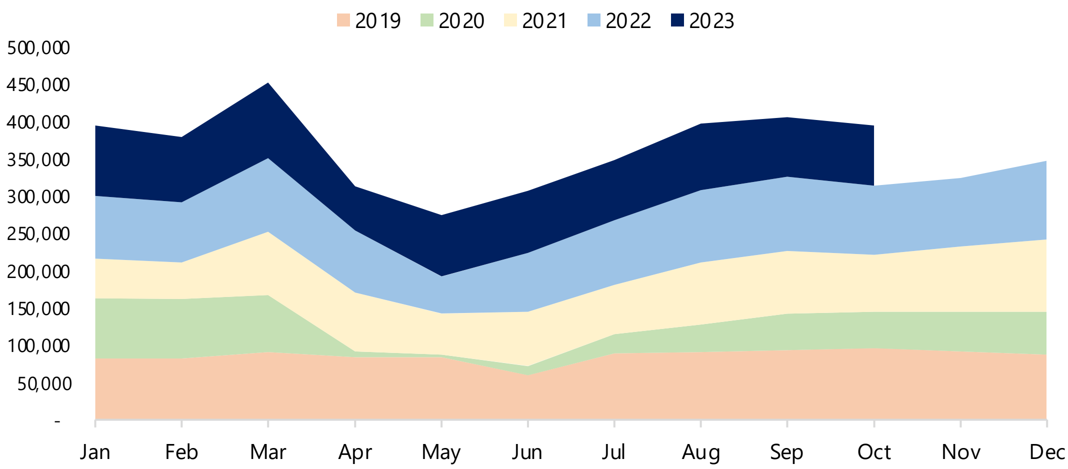
ASII plans on introducing Toyota's EV cars into the Indonesian market. ASII intends to make the EV market more competitive



Sources : Gaikindo, MNCS

Exhibit 43. The trend car sales in FY19-10M23 (unit per month)

Sales are poised to experience a boost approaching year's end based on historical trends, bolstered by various promotions



Sources : Gaikindo, MNCS

Banking
Overweight

Solid Earnings on the Cards Amid Challenges

Liquidity strain persists, hopes for improvement by 2Q24

The current state of national banking liquidity is expected to remain constrained at least until 2Q24. Throughout 2023, BI responded to the significant rise in the USD rate, propelled by the increasing FFR, through a calibrated series of interest rate hikes totaling 250bps from Jul-22, culminating in a 6.0% by Dec-23. As of Oct-23, the LDR stood at 84.1%, reflecting an increase from Jan-23 when it was 79.5%. Loan growth recorded a slight uptick at 8.99% YoY, compared to 8.96% in Sep-23. However, Third Party Funds in Oct-23 weakened to 3.43% YoY, substantively diminished from the 6.54% YoY observed in Sep-23. The rising LDR indicates an increase in the proportion of banking deposits directed towards credit, leading to a tightening of liquidity. Additionally, M2 in Oct-23 was relatively low at IDR8,505 tn, growing by 3.4% YoY, compared to the previous month's growth of 6.0% YoY. The expectation is that new banking liquidity will be sustained in 2Q24 following the potential reduction in FFR.

Big 4 Banks had a solid year, and expect next year to be similar

Loans in big 4 banks grew 11.6% YoY in Oct-23, higher than industry record. Time deposit increased 3.5% YoY while CASA only expanded 2.9% YoY, causing NII to jump 9.8% YoY during 10M23. Combined with operational efficiency, operating profit and net profit of big 4 banks rose 19.6% YoY and 38.7% YoY respectively. Despite projecting a more conservative loan growth estimate of 9%-10% for the upcoming fiscal year, slightly below the BI projection 10%-12% in FY24E, historical election-year trends hint at a temporary deceleration in loan growth, poised for a resurgence 2H24 as elections conclude and monetary policy eases. Nonetheless, there is sanguinity in the business sphere that the banks' overall financial performance is poised for further growth in 2024.

Expect higher NIMs and cost efficiency

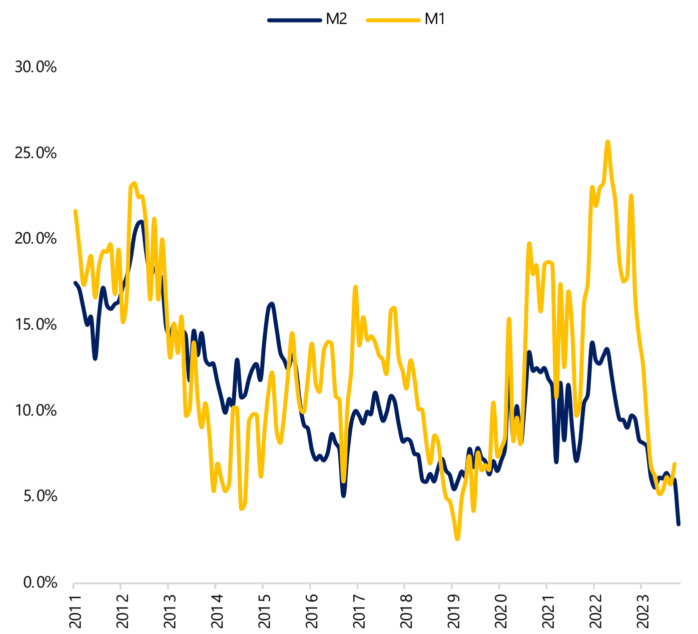
Banks under our coverage are poised for strong performance in FY24E with a 12.8% YoY earnings growth, defying expectations of moderated loan growth. This resilience is fueled by higher NIM and cost efficiency. Anticipate a 6% expansion in the big 4 banks' NIM in FY24F, with a potential 10bps reduction in CoC contributing to earnings upside. We also expect a modest reduction in the blended cost of funds to 0.8%-2.9% in FY24F amid abundant liquidity within the banking system in 2H24. NPL challenges are limited, and we foresee further improvement in asset quality with a positive economic outlook.

Recommendation: Overweight with BBCA, BMRI and BRIS as our top pick

We maintain our **Overweight** rating on banking sector due to 10M23 solid performance. While we maintain our optimism on the sector on better overall forward macros, we believe investors may still be highly selective in their long-term picks. Our top picks, identified through a sector matrix, are banks undervalued despite robust growth prospects in dividends and ROEs. We continue to like BBCA, benefiting from NIM expansion through a robust CASA position, and BMRI, driven by strong loan growth and consistent improvement in asset quality. Meanwhile, BRIS is favored for its strategic position in the government's agenda to boost the Sharia economy. Risk to our call: 1) slower-than-expected economic recovery; 2) rising NPL due to slower economic growth.

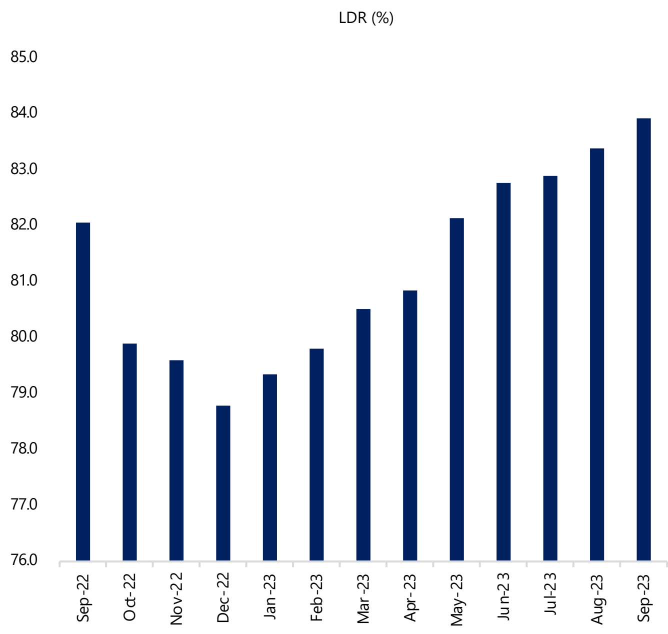
Ticker	Mkt Cap (IDR tn)	PBV (x)		PE (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
BBCA IJ	1,134.13	4.7	4.1	24.6	21.9	BUY	10,600
BBRI IJ	837.36	2.2	2.1	11.8	10.6	BUY	6,600
BMRI IJ	553.00	2.0	1.8	10.3	8.9	BUY	6,850
BBNI IJ	193.01	1.3	1.2	9.5	8.6	BUY	5,900
BRIS IJ	78.42	2.0	1.8	14.3	12.6	BUY	2,100

Exhibit 44. M2 in Oct-23 was relatively low at IDR8,505 tn



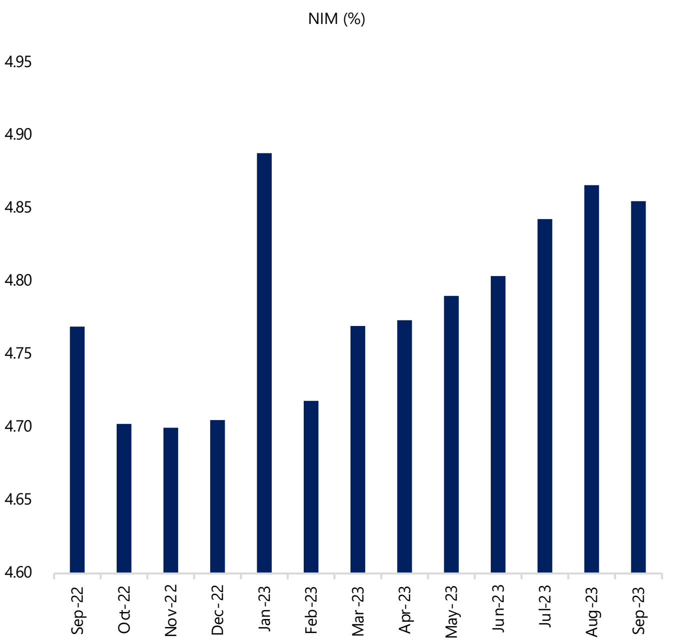
Sources : Bank Indonesia, MNCS Research

Exhibit 45. Liquidity challenges linger as seen in the high LDR in banking system



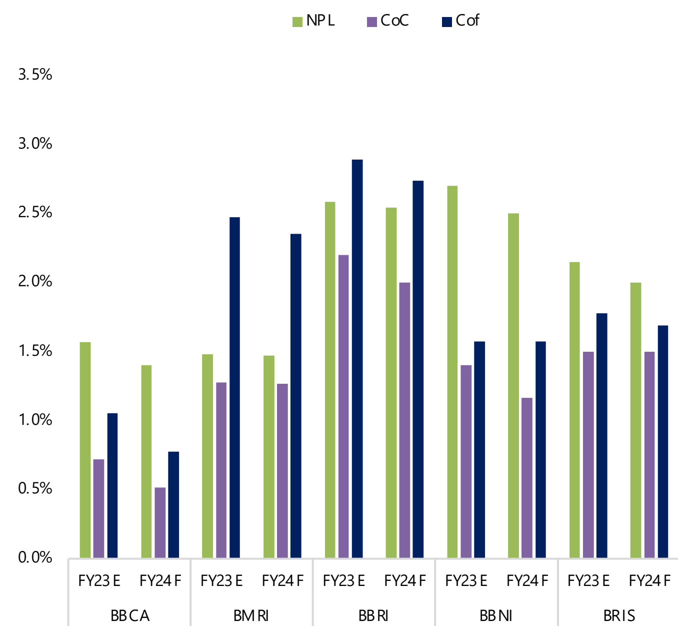
Sources : OJK, MNCS Research

Exhibit 46. NIM gradually picking up in the banking system



Sources : OJK, MNCS Research

Exhibit 47. We anticipate the implementation of efficiency strategies



Sources : Companies, MNCS Research

Cement
Neutral

Awaiting Decisive Catalyst to Push Through Looming Headwinds

Volume growth is likely in FY23E, but FY24F is laid with more hurdles

- The recovery seen in May-23 (+63% MoM) up to Oct-23 (+3% MoM) gave rise to an optimistic outlook that FY23E's sales is set to grow by at least a mere 1% YoY. This was possible due to several catalysts, including: 1) the IKN project in the near term, potentially reaching 1.4mn tons; 2) the government's remaining 58 PSNs, amounting to IDR420tn of catalyst for cement players.
- Currently, the overall sales are bolstered by the strong demand from Eastern Indonesia, with the sales growing by 1% YoY as opposed to the declining sales (-11% YoY) in the Java region as of 10M23.
- The PPN incentive policy for properties in FY24F is hoped to deliver a domino-effect for cement demand, particularly the bag market which has had a sluggish FY22 (-8% YoY) and 10M23 (-20% YoY) performance. If the market turns out to be more dovish than expected, the property demand should blow up and look past the ongoing general elections.

Positioning for better performance

INTP, focuses on wrapping up the full acquisition of PT Semen Grobogan located in Grobogan, Central Java in Nov-Dec 2023. The Grobogan factory has a capacity for 1.8mn tons of clinker and more than 2.5mn tons of cement, complemented with a limestone reserve adequate for the next 50 years. This strategic move will reinforce INTP's positioning within the Central Java and East Java market whilst saving logistical expenses for the long run. INTP has also started commissioning their second kiln in Maros to ensure adequate supply to the Eastern Indonesia market as well as the IKN project. We assess that this strategy would bode well for INTP's market share fate in Java and Eastern Indonesia, with hopes of at least a 1% bump of market share in FY24F's.

SMGR, showed good export traction and is looking at an even better FY24F with the addition of US export deal, potentially stacking another 500k tons of sales volume in FY24F. SMGR holds a conservative growth estimate in FY24F, with ~1.5mn tons as the target, with demands predominantly from governmental projects. As the largest market share wielder (51.8% as of Oct-23) and part of the government's agencies, SMGR is confident that cement demands to fulfil projects undertaken by the government in FY24F should be coming their way.

Lurking risks calls for a conservative estimate

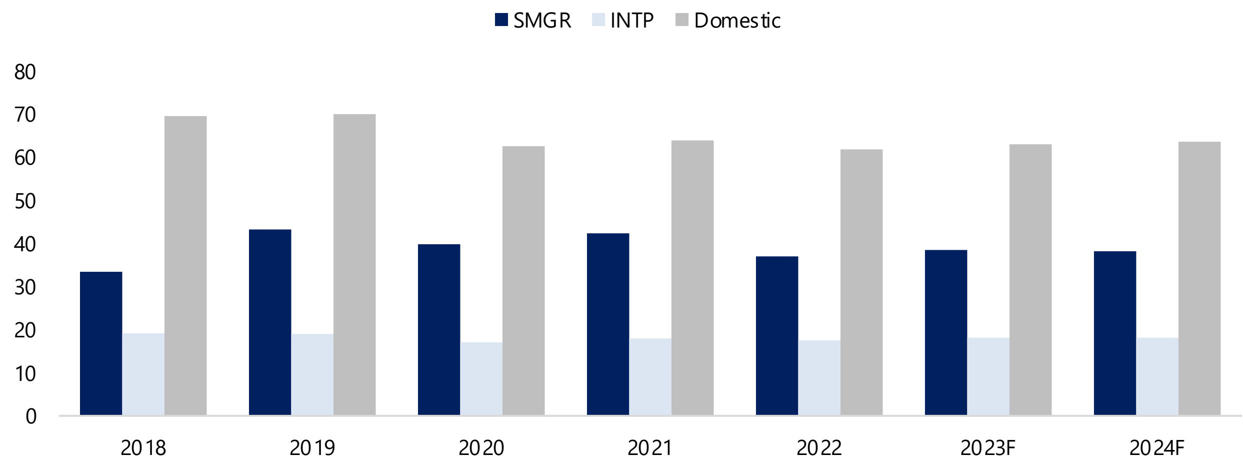
In spite of a potential improvement in volume, upon weighing the looming risks ahead we call for a flat sales volume in FY24F. The risk cement players are to face include 1) geopolitical risks interlinked with the further depreciation of USD/IDR, entailing higher energy costs; 2) a possibility of an extended election period, holding off project worktime; 3) higher precipitation intensity post FY23's weak-moderate El-Nino. We view that the blended ASP looks flat in FY24F, at around IDR940k-960k/ton, whilst the COGS likely to be around IDR650k-740k/ton. In addition, regulation also poses as a risk, assuming that the DMO policy would be changed and government interventions be made in the domestic cement ASP.

Neutral Recommendation for the Cement Sector

We change the recommendation from OVERWEIGHT to **NEUTRAL** for the cement sector outlook in FY23F. The valuation is based on SMGR IJ and INTP IJ currently hovering at the -1STD level of their PE bands (3 years average). We anticipate possibilities of margin-chipping commodity prices, whilst being wary of the state of the construction companies' balance sheet which could dampen the sales performance of domestic cements. Our top picks are SMGR (BUY; TP: IDR7,850) and INTP (HOLD; TP: IDR10,400). Risk to our call: 1) weaker demand; 2) ODOL and carbon tax policy; 3) change in DMO regulation.

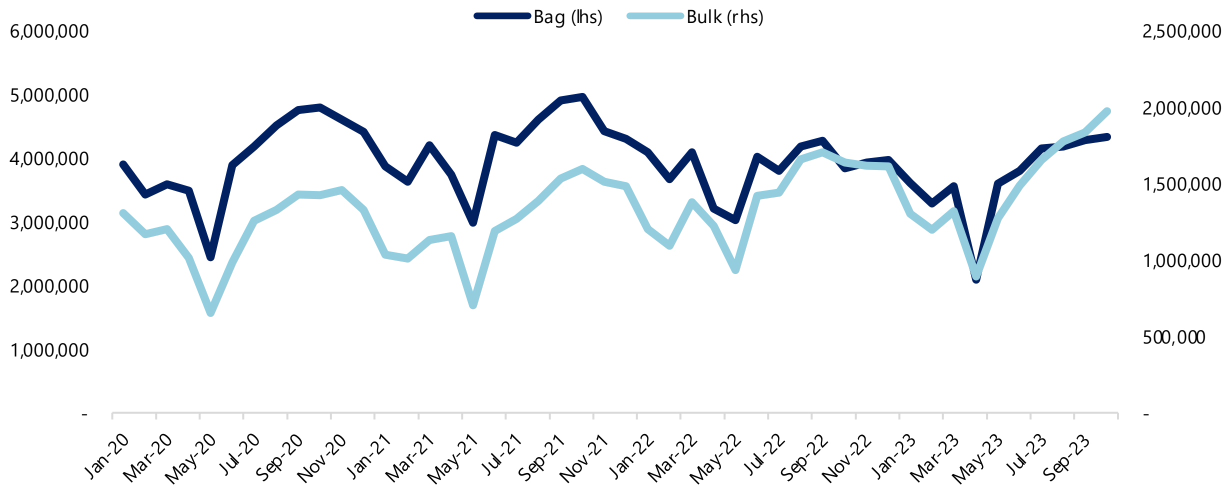
Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
SMGR IJ	43.7	17.5	16.5	1.0	1.0	BUY	7,850
INTP IJ	34.6	18.2	17.3	1.9	1.9	HOLD	10,400

Exhibit 48. The trend of sales volume in FY18-FY24F (million tons)



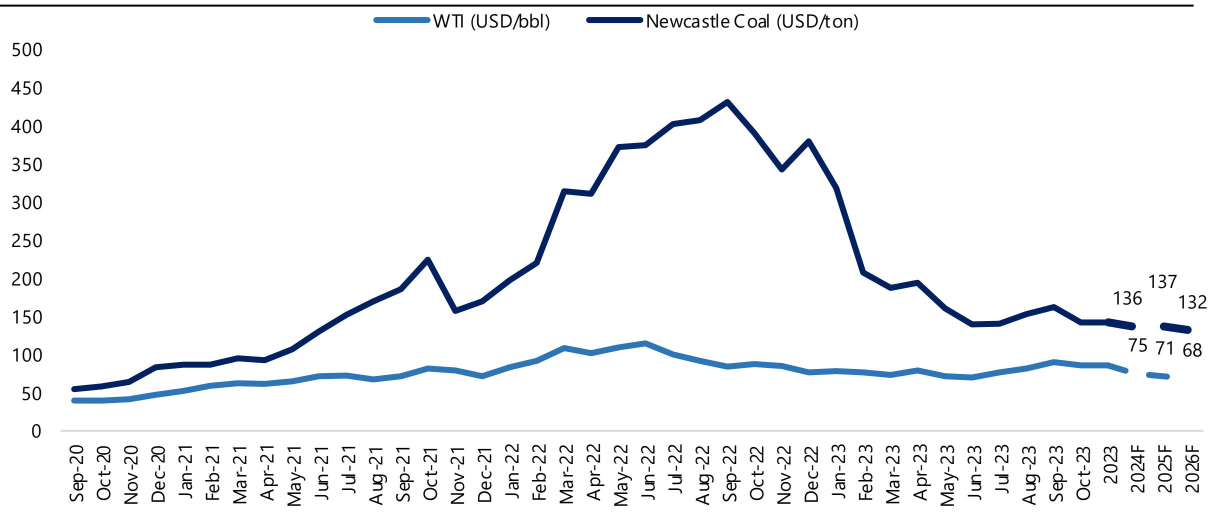
Sources : Companies, MNCS

Exhibit 49. National Cement Domestic volume is expected to grow up to 1% for FY23 and FY24F due to weak growth of bag cement that is expected to continue, despite strong growth of bulk sales



Sources : Companies, MNCS

Exhibit 50. Global situation expected to cause higher WTI Fuel price that will cause our non-subsidized fuel and the FX risk of weakening IDR against USD



Sources : Bloomberg, MNCS

Coal
Neutral

In Search of Coal Players' Afterparty

Industrial performance recap

- Indonesia's coal industry's activity grew; output grew 10.0% YoY reaching 697.8mn tons, both the domestic as well as export sales grew 8.3%/4.5% YoY to 296.6mn/352.4mn tons, respectively, as of Nov-23's data from the Ministry of Energy and Mineral Resources (MoEMR). China's own coal output jumped 3.8% YoY with the clear target of fulfilling the nation's growing power consumption by 5.9% YoY to 769bn KWh in 10M23. Even with such a strong output resurgence, the imports have not faltered but have, to the contrary, surged by 98.1% YoY within the same time period. India's imports have also grown 10.3% YoY coinciding with their own outputs having reached record highs.
- The miners in our universe performed as expected in 9M23; seeing a normalizing decline in net profit. Out of the three, ADRO's decline was the most cushioned, landing a less painful -36% YoY decline (24.5% NPM) compared to ITMG's and PTBA's even steeper decline of -54.6%/-62.2% YoY (NPM of 22.2%/13.6%), respectively. ADRO achieved the highest GPM (39.9%), amongst ITMG's decent 33.4% and PTBA's meager 21.4%. ADRO's bottom line exceeded MNCS/consensus estimates at 77.9%/83.7% of FY23E, while ITMG's and PTBA's fell short, reflecting 73.9%/68.6% and 63.8%/43.0%, respectively. ITMG's top line fell the deepest by -30.2% YoY amid a -36.2% shrink in ASP whilst also recording the slowest sales growth (9.8% YoY vs ADRO's/PTBA's of 11.1%/14.4% YoY), whereas ADRO managed to contain the top line/ASP slip to -15.8%/-24.2% YoY and PTBA by an even softer -10.7%/-22.0% YoY.
- ADRO stood with the most abundant net cash reserves amounting to USD2,236.2mn, 3x that of ITMG's, while PTBA's net cash comes in negative due to its sizeable accrued expenses. ADRO's unappropriated retained earnings came in at USD5,131.8mn during the same period, 4x/24x times higher than ITMG's and PTBA's, priming a higher probability for dividends in FY24F.

Coal prices expected to stabilize at current levels

Chinese and Indian coal demand are expected to stay strong at least until FY31F before they start declining, at a CAGR of 2.0% and 3.1%, respectively, according to S&P forecasts. Both nations have a hasty agenda of ramping up their coal-fired power plant (CFPP) capacities; China has been on a CFPP permitting spree with 243 GW of capacity now under active construction which still has the potential to grow to 392 GW if the base case scenario plays out, while India's figures, though lower, stand at a considerable 65.3 GW. This will be met with solid Indonesian output; MoEMR expects FY24F production to be maintained at c. 700mn tons. We project the Newcastle price to hover around c. USD120/ton for FY24F, entailing a blended ASP of -32.4%/-13.4%/-27.8% YoY for ADRO/PTBA/ITMG.

Strategically positioned market share to temper FY24F's earnings decline...

The theme for coal players going forward is who can slowdown their earnings decline the most, whilst securing enough capital for diversification plays. All three miners are projected to experience further declines in their bottom-line in FY24F; ADRO by -33.9%, ITMG by -39.8% and PTBA by -9.5% YoY, and hence their ability to generate FCF (projected to unanimously decline by -45.9%, -41.7% and -14.8% YoY, respectively). What we think will be a reasonably decisive factor in cushioning the rate of earnings' decline of coal miners would be their portfolio of export market, in particular the Chinese and Indian market. From our universe, the coal player that has the most exposure to such market giants would be ITMG (China: 29%; India: 4%), ADRO (China: 20%; India: 11%) and then PTBA (China: 9%; India: 17%). Despite having the largest proportion of Chinese export market, ITMG's YoY revenue demise was due to their larger exposure to the Japanese, Philippines and Taiwanese market (each accounting for 20.1%, 10.5% and 2.0% of the revenue), which had a higher ASP base and was more volatile. The slump in ASP incurred from the two regions (India by -25.3% YoY; China by -30.2% YoY) were milder than that of other countries (Philippines by -50.1%, Taiwan by -41.6%, Hong Kong by -40.5% and Japan by -39.5% YoY).

...faced with threat of leveling the playing ground through BLU/MIP

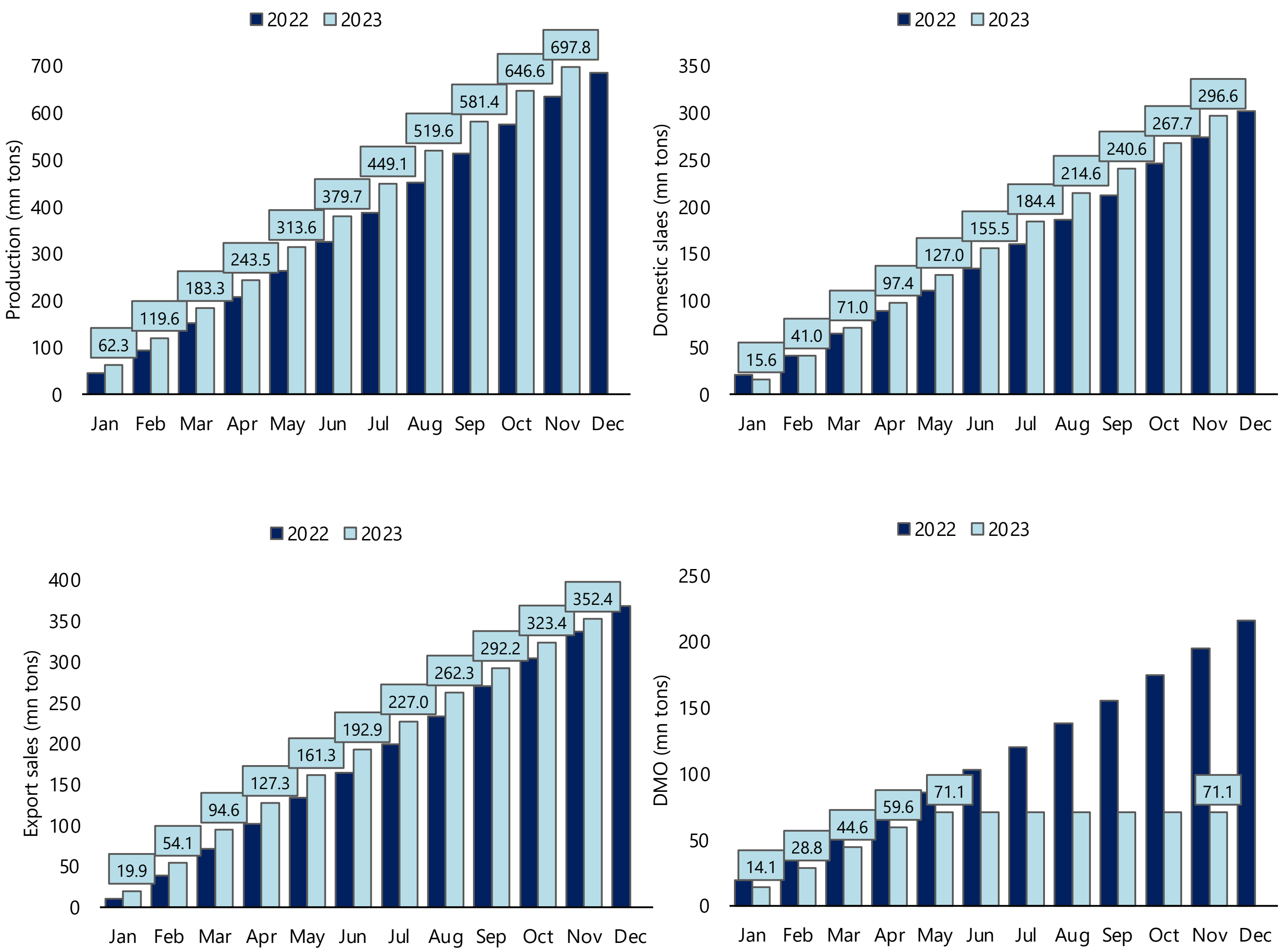
The government has once again voiced out the impending policy of Mitra Instansi Pengelola (MIP; formerly known as BLU), indicating that the policy will be rolled out in Jan-24. The policy itself hasn't exactly been welcomed within the coal mining community, let alone shown undisputed consent. Nevertheless, we have not yet priced in the effect of BLU into our projections due to the undisclosed variables such as tariff ratio that will come into the calculation. PTBA's margins should benefit from the enactment of this policy, while ADRO and ITMG can expect some margin-chipping, with ITMG to a greater extent due to its greater exposure to the export market (83% of its total revenue vs ADRO's 82%), and ADRO's partial buffer against the BLU fee through the met coal segment (met coals aren't included in the MIP scheme).

NEUTRAL recommendation for the coal mining sector

We call for a **NEUTRAL** stance for the Indonesian coal miners as they face a new wave of uncertainty, mainly pertaining to the BLU implementation, whilst coal prices are expected to remain stagnant at their current levels post-normalization period. We continue to like ADRO as our top pick (TP: IDR2,700/share) due to its 1) relatively resilient earnings performance, 2) relatively stable outlook in facing MIP policy and 3) ample cash and RE reserves entailing higher possibilities of lucrative dividends compared to its peers.

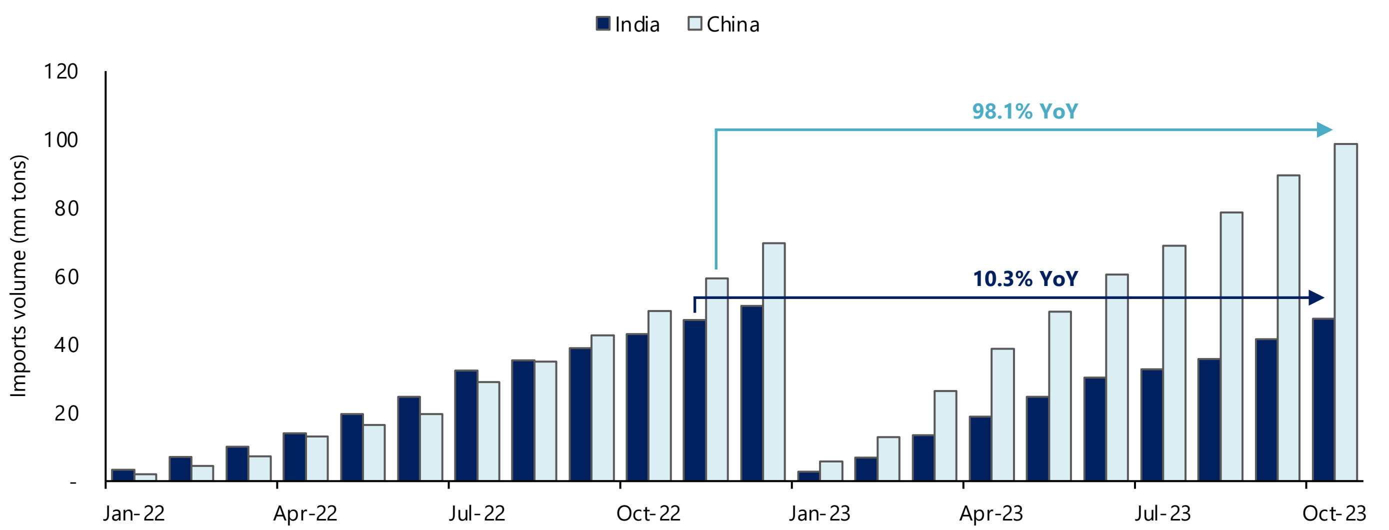
Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
ADRO IJ	82.5	3.9	5.9	0.9	0.9	HOLD	2,700
ITMG IJ	28.2	3.5	5.8	0.9	0.9	HOLD	24,900
PTBA IJ	28.1	6.3	7.0	1.1	1.1	HOLD	2,500

Exhibit 51. YoY Indonesian coal industry performance (monthly cumulative)



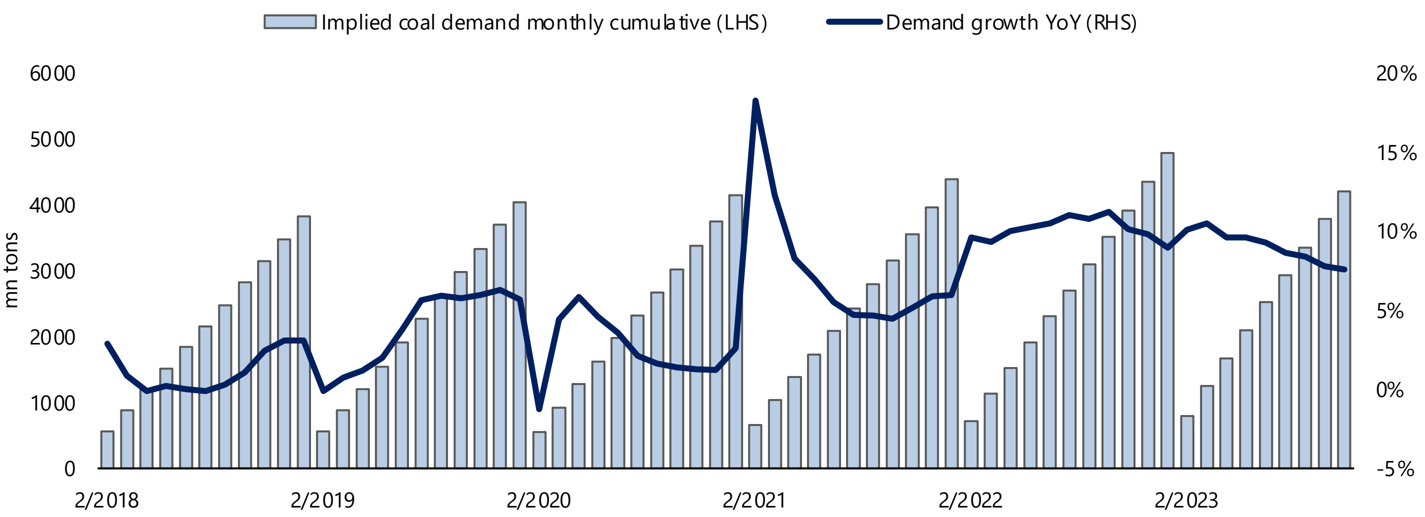
Sources : MoEMR, MNCS

Exhibit 52. India and China import volumes have surged (monthly cumulative per year)



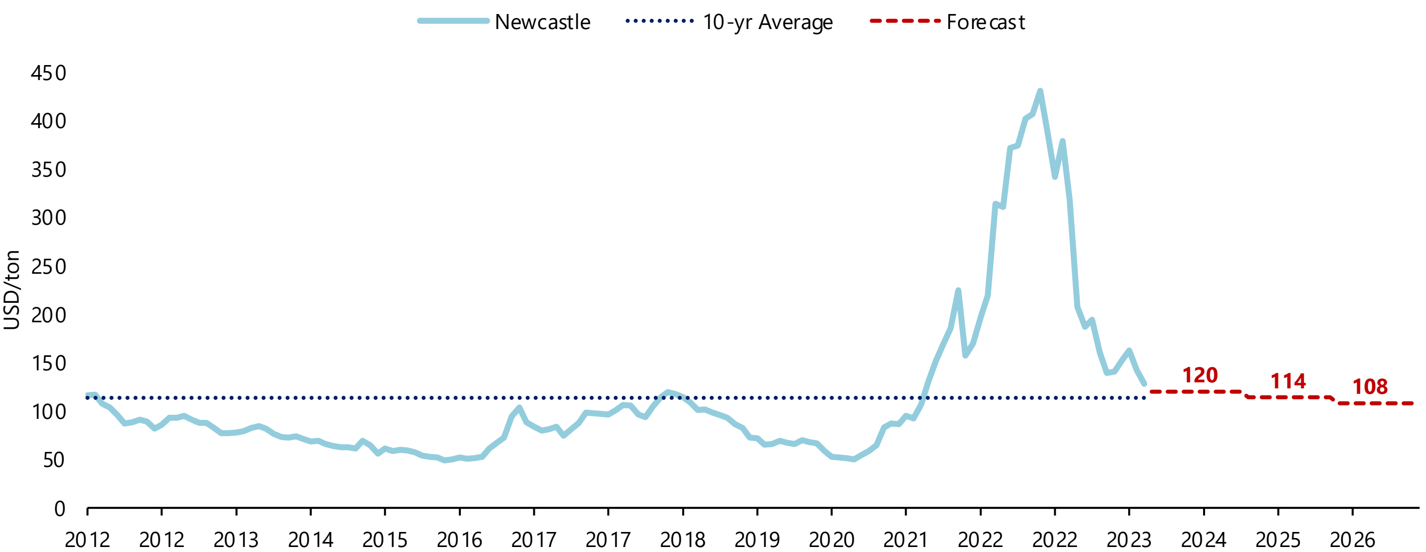
Sources : Bloomberg, Global Ports, MNCS

Exhibit 53. China's implied coal demand (output + imports - exports) has consistently grown, growth to exceed pre-pandemic levels



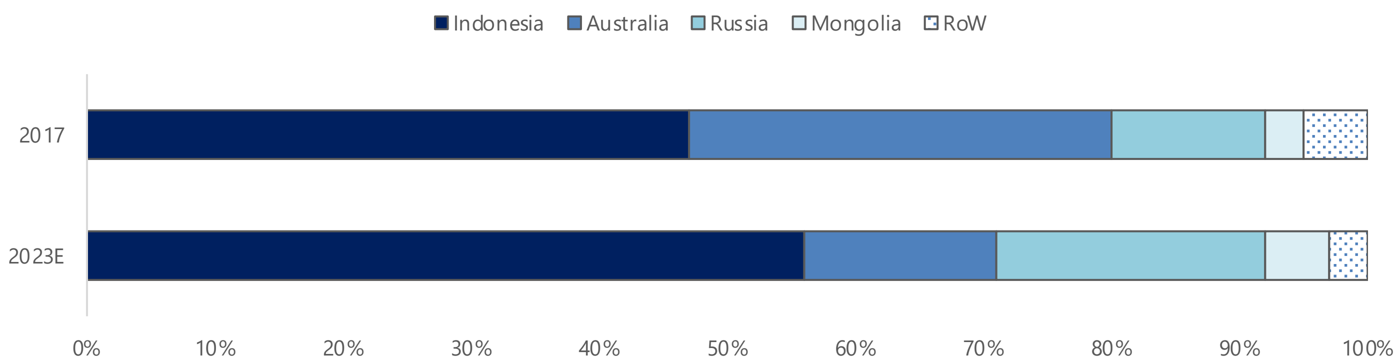
Sources : Bloomberg, MNCS

Exhibit 54. Coal prices to hover above 10-yr historical mean in FY24F on its declining trend



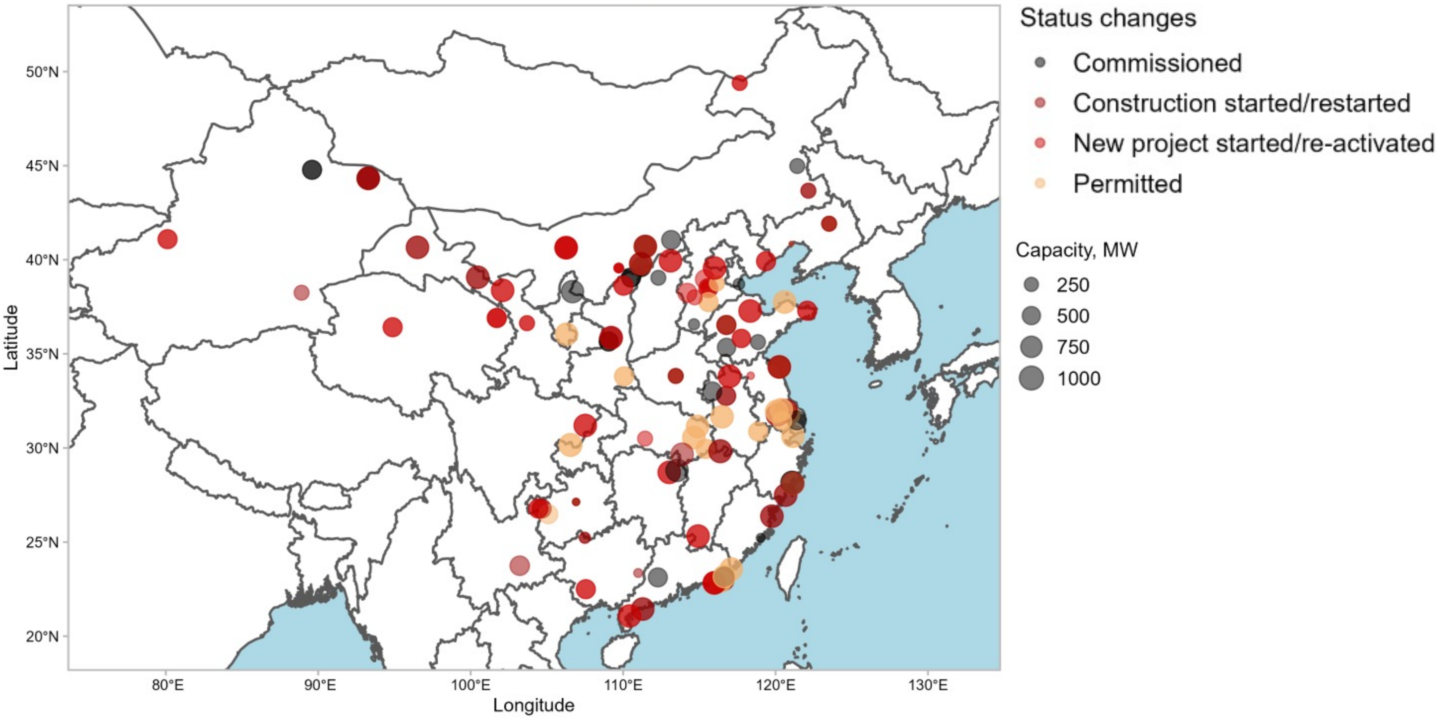
Sources : Bloomberg, MNCS

Exhibit 55. China's appetite for Australian coal have yet recovered post trade-ban lift in early 2023; opportune for Indonesian coal players



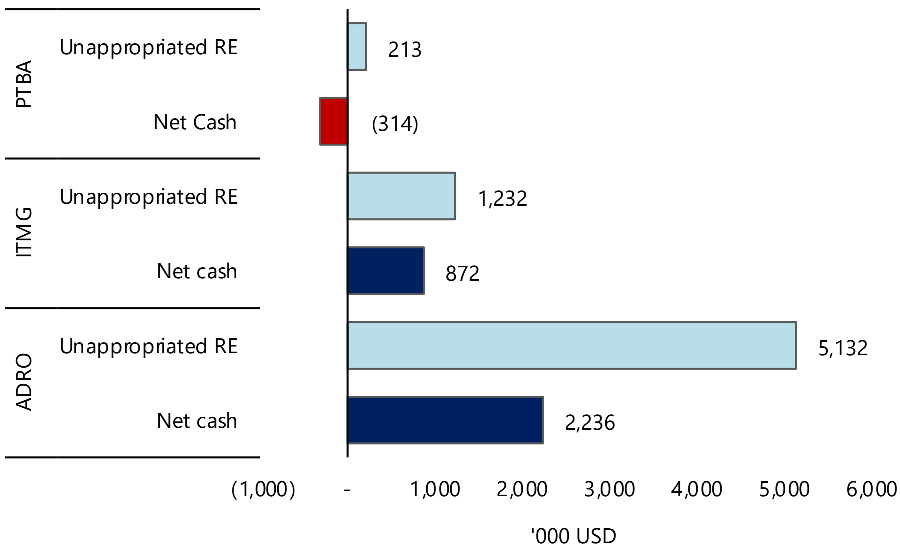
Sources : MoEMR, MNCS

Exhibit 56. China's commissioned and planned CFPP geographical profile; plenty underway to fuel more demand



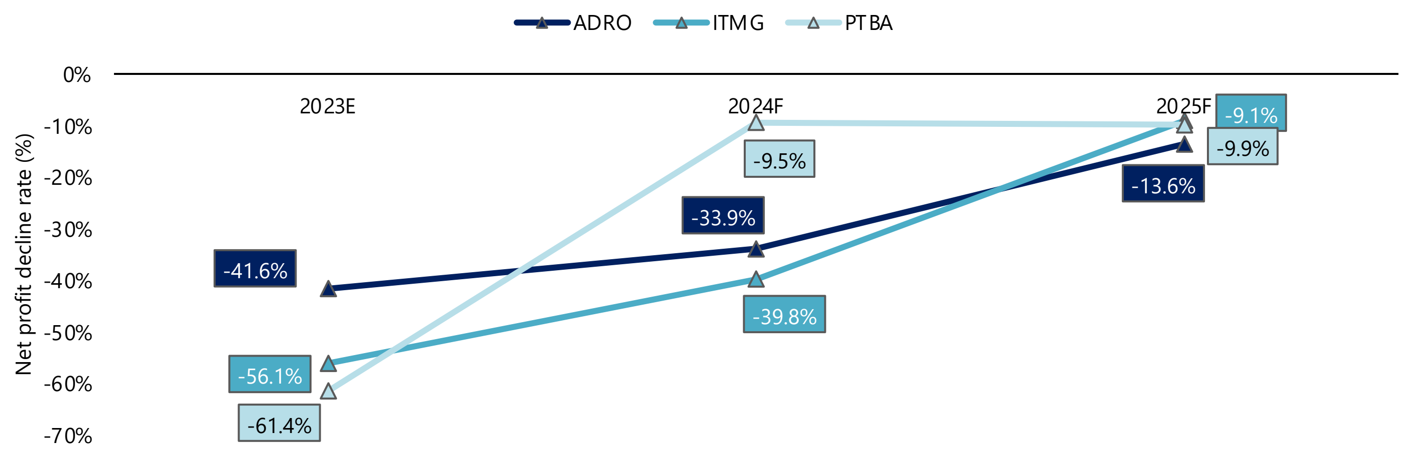
Sources : CREA, MNCS

Exhibit 57. ADRO's 9M23 cash and RE reserves to lead; attractive for dividend hunters



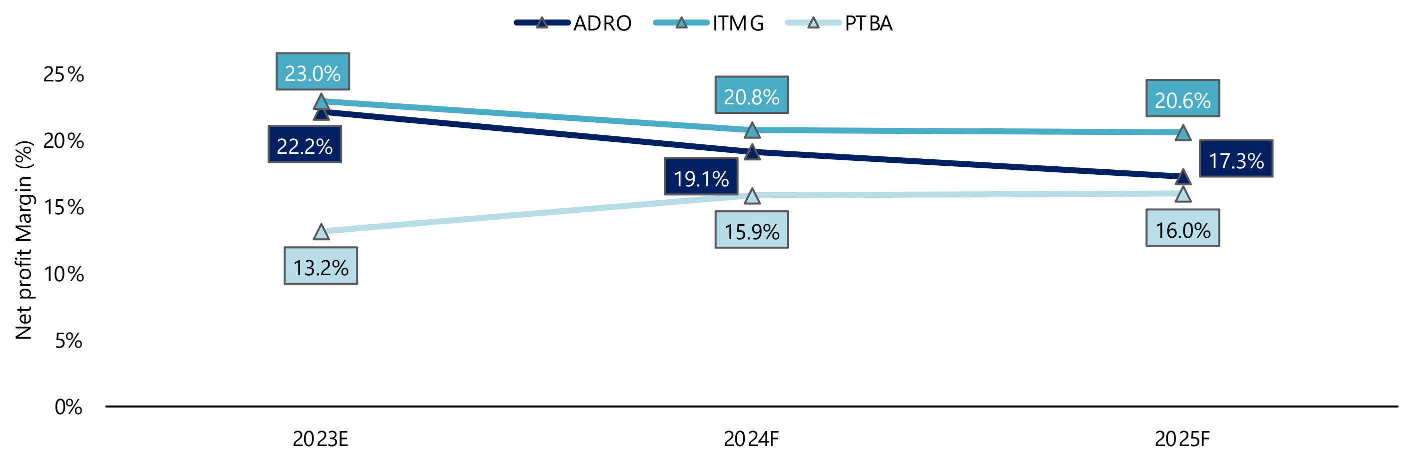
Sources : Companies, MNCS

Exhibit 58. ITMG projected to risk deepest net profit contraction next year while PTBA set to gain from export share rise and MIP boost



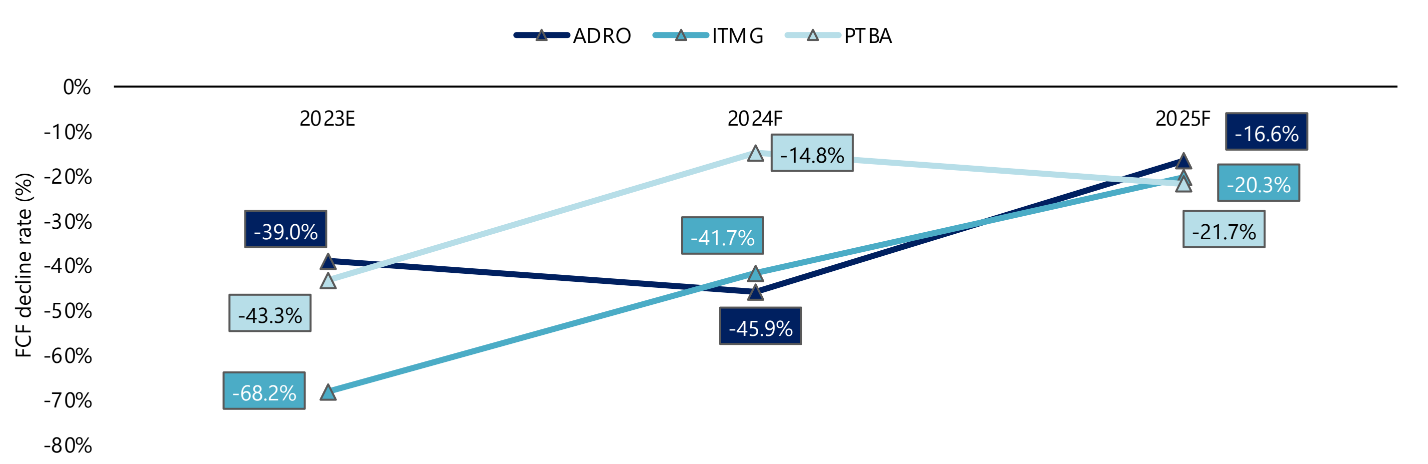
Sources : Bloomberg, Companies, MNCS

Exhibit 59. NPMs expected to recalibrate after volatile 2022-2023E coal price movements on stable 2024-2025F



Sources : Bloomberg, Companies, MNCS

Exhibit 60. The three coal miners' FCF trend



Sources : Bloomberg, Companies, MNCS

Consumer Cyclical

Overweight

Mid-High Resilience and Strategic Shifts to Propel Growth

Healthy mid-high consumer to support spending

We expect that mid-high retailers remain upbeat in FY24F as opposed to the low-mid segment, owing to their consumer base's resilient spending power. We consider the consequences of El-Nino (lagging by 6-8 months) which could lift up staple food prices, translating to the vulnerability of low-mid-class and leads to downtrading behavior. Despite the fact that expenditure proportion for consumption across all classes has shown continuous recovery until 10M23, we notice that only the mid-high class (income >IDR5mn) witnessed an uptick in consumption and savings, making it fairly resilient and providing disposable income when compared to other classes, in our view.

- **We believe this circumstance will benefit MAPI in the future.** In 9M23, MAPI expanded by opening +340 stores (including BK and Domino's), translating to a total added space of +70.5k sqm, or higher compared to the FY22 realization of +59.2k sqm. Furthermore, with promising overseas stores contributing 12% to the turnover in 9M23, we expect this to be a growth engine for MAPI in the future. However, we acknowledge the downside risk of shifting products, leading consumers to switch to MSMEs.
- **We also favor ACES with a recovery SSSG of +6.8% in 10M23.** ACES has initiated a strategic shift, transitioning from big sale promotions events to more targeted and limited campaigns. We perceive this as a positive and efficient move. ACES also plans to integrate fully into the Kawan Lama Group's ecosystem by 1H24. It formerly integrated ACE Rewards (Poin) into RupaRupa Rewards (Koin). This leap will benefit ~5mn ACE members by allowing them to take advantage of different appealing programs such as member-only pricing, welcome gifts, free delivery and installation, and many more. We anticipate these developments could deliver more basket size to fuel SSSG onwards (FY23E guidance: 6.5%). Furthermore, we foresee the potential of new members due to the fully integrated ecosystem, which encompasses other business pillars of Kawan Lama Group's such as consumer retail and FnB.
- **Moreover, ERAA has an active lifestyle segment with high-brand products (UR, Garmin, JD Sport),** benefiting from the ongoing sports trend until FY24F. We also note a bounce back in ERAA's smartphone sales volume in 9M23 at +4.8% YoY, following a decline in FY22 (-20.3% YoY). We are optimistic about the potential for continuous sales volume growth in the future, particularly with the presence of Transsion Holding brands (Infinix and Techno) catering to the value-to-performance segment.

Ongoing occupancy recovery, alongside the forthcoming retail space

The occupancy rate for mid-high retail space in Jakarta continues to recover and close to pre-pandemic levels. Notably, the occupancy rate in the mid-high retail space in 9M23 was 84.6% (vs 90.4% in 4Q19), while the mid-low seems to struggle hovering at ~50% (vs 66.3% in 4Q19). We expect continued improvement in the occupancy rate for mid-high retail space, supported by: 1) the festive season momentum in 2Q24; 2) the presence of new brand portfolios; 3) attractive promotions during payday. Likewise, the addition of shopping centers (such as Menara Jakarta Shopping Mall and Pakuwon Mall Bekasi) with an estimated 330k sqm in the Jakarta and Greater Jakarta areas is likely to open up more tenant prospects for retailers in our coverage. Yet, the rise in occupancy could bolster the rental cost that we anticipate to reach pre-pandemic levels.

Expect favorable USD/IDR for the year

We favor ERAA and RALS which have minimal exposure to the exchange rate, serving as a cushion against GPM. Within the last decade, ERAA and RALS showed persistent GPM increases; in 9M23, ERAA/RALS GPM hovered at 10.5%/51.2% (vs 8.9%/34.9% in FY14), respectively. Meanwhile, our sensitivity analysis indicates every +1% increase in USD/IDR will result in a GPM decrease for MAPI and ACES, each at -17bps/-6bps, and vice versa. On the flip side, we estimate USD/IDR in FY24F to be ranging at IDR15,450-15,700 (vs IDR14,670-15,840 YTD), supported by The Fed's rate cut and additional Bank Indonesia instruments to attract inflows. With the likelihood of improving FX rate, we expect further improvement in GPM for MAPI and ACES in FY24F.

Overweight recommendation for the Retail Sector

We reiterate an **Overweight** outlook for the retail sector in FY24F. We believe that retailers in the mid-high segment will continue their positive performance, supported by the resilience of their consumer base towards headwinds. Furthermore, after substantial store additions post-pandemic, we see retailers tending to drive productivity per store to protect margins from rental cost adjustments. We view that existing business portfolios in emerging countries overseas (MAPI, ERAA) will be quite robust in the face of global economic growth divergence in FY24F. Our top picks are MAPI, ERAA, ACES. Downside risks include: 1) muted purchasing power among mid-high consumers; 2) higher-than-expected rental costs; 3) tight competition from other brands.

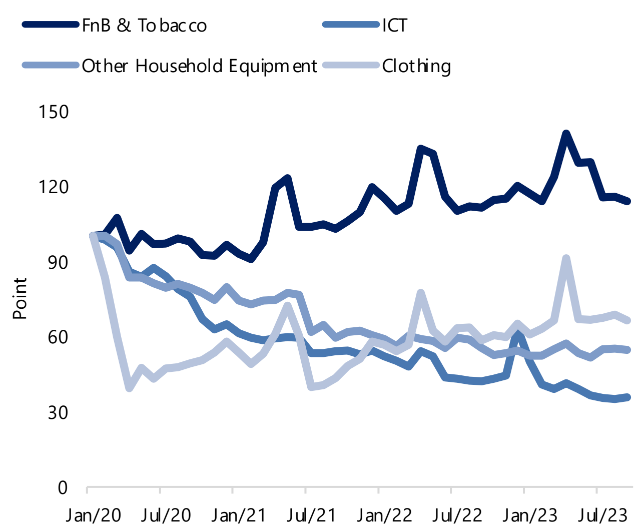
Ticker	Mkt Cap (IDR tn)	P/E (x)		PBV (x)		Rec	TP (IDR/sh)
		FY23E	FY24F	FY23E	FY24F		
MAPI IJ	29.0	18.3	15.1	3.5	3.0	BUY	2,150
ACES IJ	12.9	20.9	19.5	2.3	2.2	BUY	850
ERAA IJ	5.7	8.9	6.8	1.0	0.9	BUY	450
RALS IJ	3.4	10.3	10.5	0.9	0.8	HOLD	455

Exhibit 61. The expenditure proportion for mid-high class (>IDR5mn) has risen in savings. This bodes well for future purchasing power

	Avg. Jan-Oct FY22	Avg. Jan-Oct FY23	Growth
IDR1-2mn			
Consumption	75.5	76.6	1.5%
Loan repayments	7.6	7.2	-5.6%
Savings	16.9	16.2	-4.3%
IDR2.1-3mn			
Consumption	74.2	75.8	2.1%
Loan repayments	9.3	8.5	-8.3%
Savings	16.5	15.7	-4.8%
IDR3.1-4mn			
Consumption	72.8	73.9	1.5%
Loan repayments	10.9	9.9	-8.7%
Savings	16.3	16.2	-1.1%
IDR4.1-5mn			
Consumption	70.7	72.2	2.0%
Loan repayments	12.2	10.9	-11.4%
Savings	17.0	17.0	-0.2%
>IDR5mn			
Consumption	68.3	68.7	0.7%
Loan repayments	13.8	12.9	-6.5%
Savings	18.0	18.4	2.5%

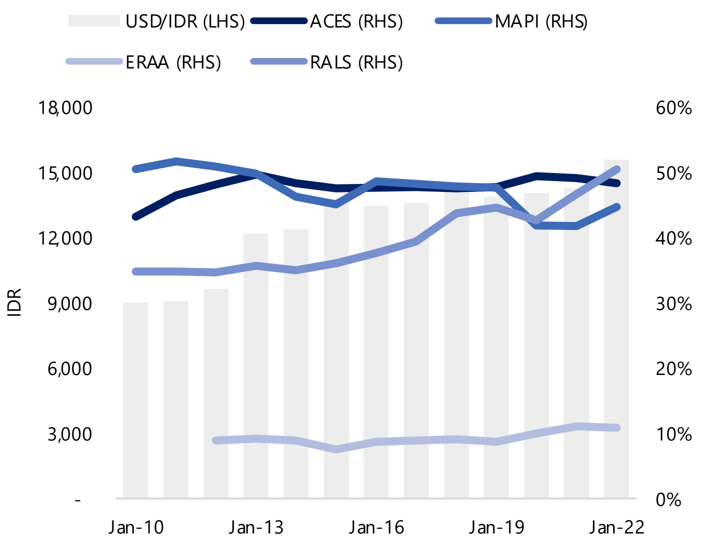
Sources : Bank Indonesia, MNCS

Exhibit 62. Retail sales typically soar during the festive season of Eid al-Fitr



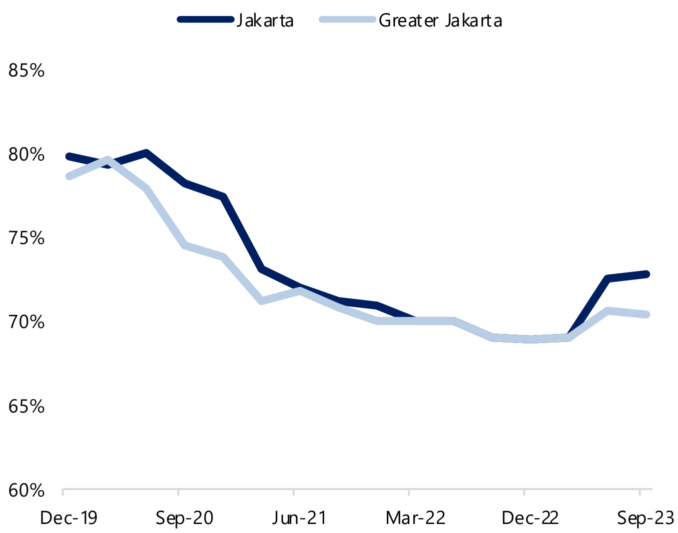
Sources : Bank Indonesia, MNCS

Exhibit 63. The GPM of ERAA and RALS showed resilience against fluctuations in USD/IDR



Sources : Bloomberg, Company, MNCS

Exhibit 64. Occupancy in Jakarta and Greater Jakarta areas bounced back in 1Q23



Sources : Colliers, MNCS

Exhibit 65. Occupancy in mid-high retail spaces is close to pre-pandemic levels

Jakarta	4Q19	1Q23	2Q23	3Q23
Premium	91.0%	84.50%	86.2%	86.2%
Mid-high	90.4%	79.3%	84.6%	84.6%
Mid	77.6%	65.9%	68.6%	69.3%
Mid-low	66.3%	47.0%	50.0%	49.6%

Sources : Colliers, MNCS

Exhibit 66. Our sensitivity analysis for MAPI and ACES against USD/IDR exposure

Company	USD/IDR	Impact to GPM
MAPI	-1%	+17 bps
	1%	-17 bps
ACES	-1%	+6 bps
	1%	-6 bps

Source : MNCS

Consumer Non-Cyclical
Neutral

Cautious Steps Ahead as Threat Remains Intact

Continued prices hikes may hinder purchasing power
Despite a notable +4.1% YoY increase in household consumption for FnB in 3Q23, which marked the fifth consecutive month high, we see downside risk to come from food staples prices hike in 4Q23 and potentially continuing until 2Q24. This is mainly driven by the post-El-Nino effect. NOAA projects the persistence of Strong El-Nino in Apr-Jun'24 (with 62% chance. By YTD, rice prices have soared by +16%, followed by garlic (+38%), red chili (+93%), and sugar (+20%). In addition, volatile inflation was recorded at +1.7% MoM in Nov-22, the highest in the last 11 months. According to BMKG, considering the delay in the rainy season to Oct-23 and its shorter duration in FY23/FY24F, we anticipate disruptions in agricultural yields, potentially driving soft commodity prices until early FY24F. This could hamper the purchasing power of the mid-low classes, and thus make them more vulnerable.

Election and social assistance are on board, but the outcome might be negligible
To stimulate purchasing power, the government has introduced various programs until Dec-23, such as Direct Cash Assistance (BLT) for El-Nino, amounting to IDR200k/month (18.8mn KPM), and the distribution of 10kg of rice in the second phase (21.3mn KPM). Meanwhile, the social assistance budget in FY24F has increased by +3.6% YoY to IDR493.5tn (+12.4% YoY from the FY23 outlook). Despite the increase, we do not see a significant addition to the target quota for recipients, especially in the Family Hope Program (PKH) and Social Assistance (Bansos) quotas, which remain unchanged. Additionally, we estimate that the election in FY24F could lead to disbursements reaching IDR149.3tn (a +16.8% increase from FY19) or equivalent to 0.7% of GDP. However, we are cautious due to the relatively short total campaign time (including the 2nd round of the president), which is around 3-4 months compared to the FY19 election of 7 months.

Awaiting for the sugar-sweetened beverages taxation
The government has set the excise revenue target for sugar-sweetened beverages (MBDK) in FY24F at IDR4.4tn, higher than the FY23E target of IDR3.1tn before being zeroed out in Nov-23. Various proposals for the excise tax rate have been made, with one suggesting IDR650/liter. Considering BPOM Regulation No.22/2019, we estimate that products with sugar contents of >6gr/100ml will be affected. Thus, based on our channel checks, we anticipate an increase in ASP for ICBP by 2.2%-3.3%, while MYOR (Not Rated) may see an increase of 1.2%-2.5%, ULTJ (Not Rated) by 1.7%-2.6%, CMRY (Not Rated) by 1.7%-2.4%, KINO (Not Rated) by 2.7%, and UNVR by 2.0%. Assuming an excise tax increase of 10%/2% for MBDK and beverage inflation during the 3Y CAGR, respectively, we believe ICBP and MYOR still have leeway to pass on the tax to consumers given their affordable product prices (<IDR10k for small-mid size). We assess that CMRY's market share will remain relatively solid due to its top-of-mind products, while ULTJ will face increasing competition in the industry.

FY24F in a nutshell

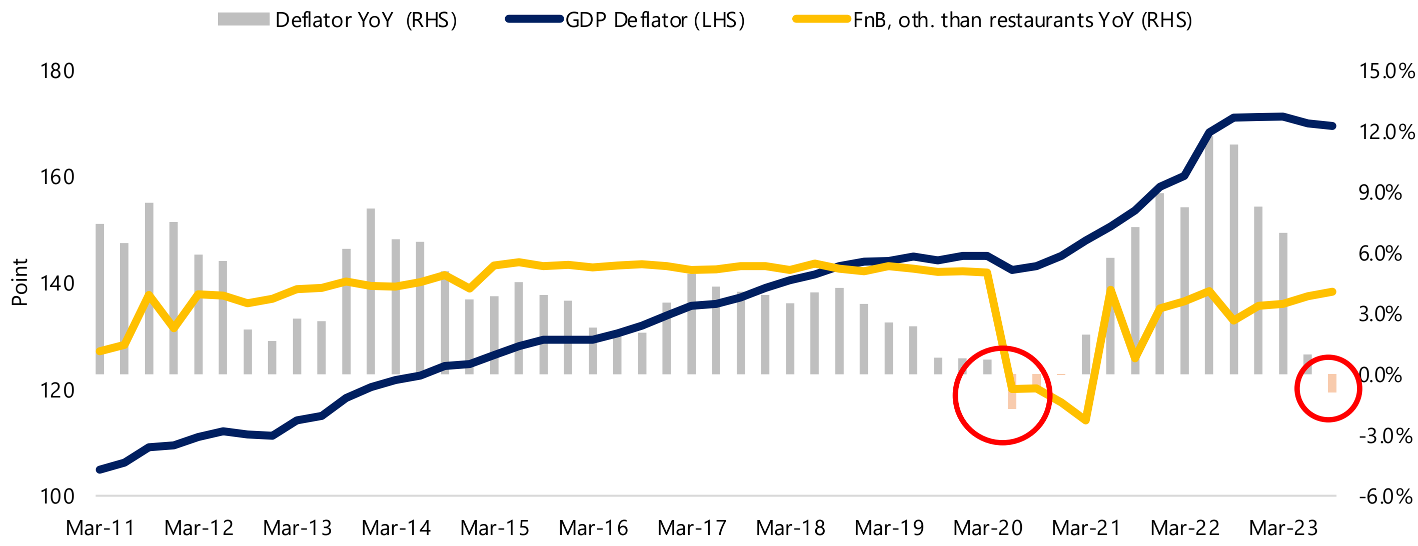
- **ICBP**. We anticipate the FY24F's election to benefit ICBP. The average growth one quarter before the FY14 & FY19 elections reached 18.5% QoQ. We see the potential for sustained solid growth in 1Q-2Q24, given the potential two-round presidential election. We also like ICBP due to its pricing power and integrated holding ecosystem.
- **INDF**. We expect positive performance in the CBP segment during the election year to offset the decline in the Bogasari segment, which we anticipate to decrease by -2% YoY, aligning with the potential moderation in ASP following wheat price trends. In Agribusiness, our plantation analyst give a neutral outlook for the sector. Despite the potential uptrend in CPO prices to MYR3,900-4,150/ton, we anticipate a decline in FFB production ahead.
- **UNVR**. With the sensitivity of mid-low class purchasing power and the potential for downtrading, we anticipate flat performance ahead. Furthermore, we do not foresee a significant impact from the election on the topline. However, we anticipate solid margins, with GPM to hover at ~50%, along with manageable input costs.
- **SIDO**. Considering the correlation between El-Nino and inflation affecting SIDO's top line, we still see downside risks ahead. Consumers seem to be neglecting household pharmaceutical products. While SIDO’s retention of a solid market share at ~73% could increase OPEX/revenue, this potentially weighs on earnings.

Neutral recommendation for the Consumer Sector

We give a **Neutral** outlook for the consumer sector. We anticipate a decline in mid-low purchasing power due to potential increases in staple prices, driving downtrading. The expected minimal impact of the election year to counteract these obstacles results in moderate growth ahead. Moreover, the FY24F minimum wage hike will be approximately +3.5%, lower than the FY23 increase of +7.4%. Our top pick is ICBP, which stands to benefit from the political year. Upside risks include: 1) faster-than-expected decline in food staple prices; 2) improved purchasing power; 3) higher-than-anticipated election disbursements.

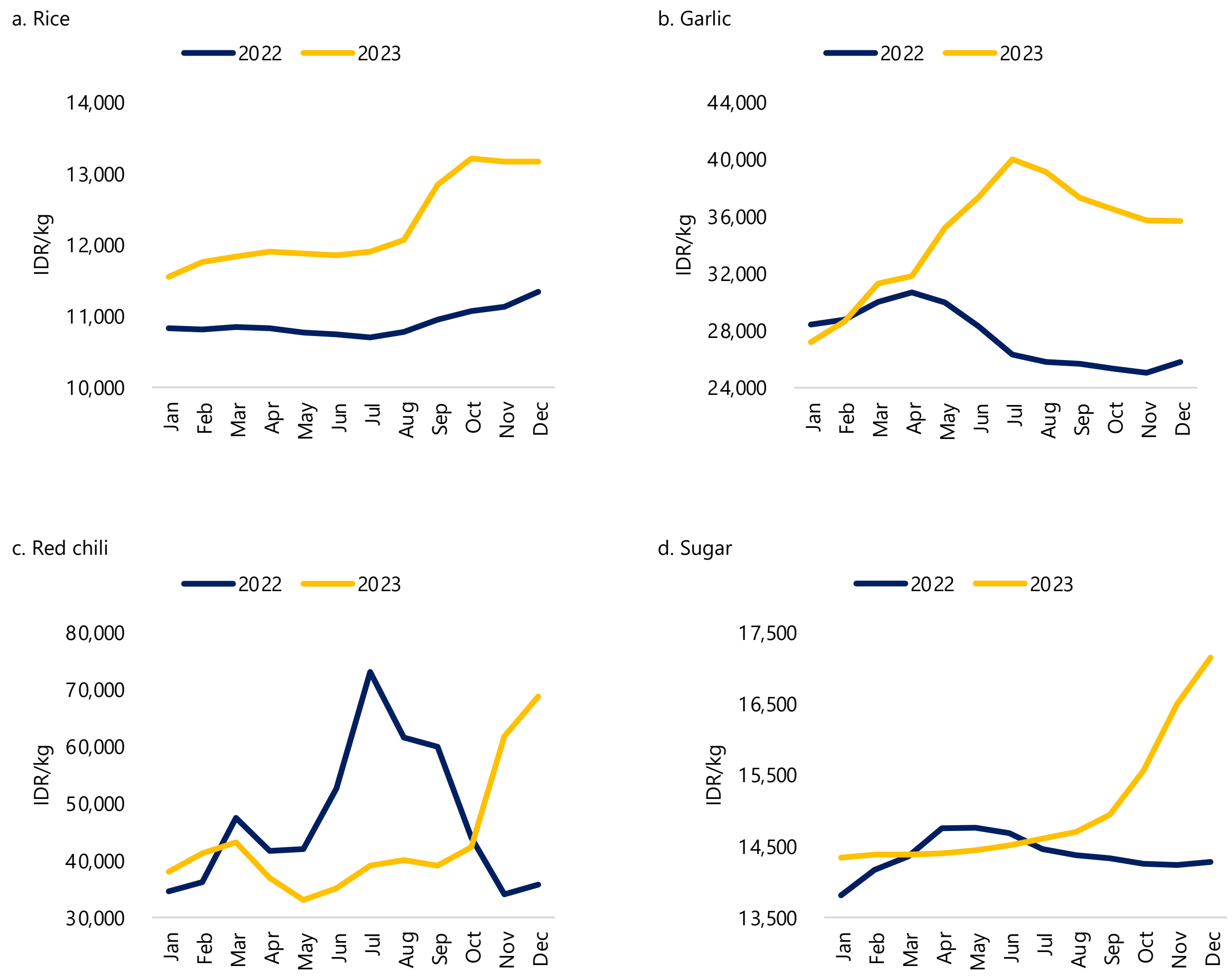
Ticker	Mkt Cap (IDR tn)	P/E (x)		PBV (x)		Rec	TP (IDR/sh)
		FY23E	FY24F	FY23E	FY24F		
UNVR IJ	133.5	26.9	26.7	36.4	39.1	HOLD	3,650
ICBP IJ	122.7	16.5	15.6	2.4	2.2	BUY	13,100
INDF IJ	56.0	7.4	7.2	1.2	1.1	BUY	7,850
SIDO IJ	15.9	17.2	16.9	4.5	4.4	HOLD	500

Exhibit 67. In 3Q23, household consumption increased by +4.1% YoY, coinciding with a decline in the GDP deflator to 169.5 (-0.9% YoY)



Sources : BPS, MNCS

Exhibit 68. Essential food staples experienced a sharp increase towards the end of the year and are expected to continue due to the impact of El-Nino



Sources : National Food Agency, MNCS

Exhibit 69. Warning of the potential Strong El-Nino in Apr-Jun'24.

National Weather Service
Climate Prediction Center
Home Site Map News Organization Search

ENSO Diagnostic Discussion

EL NIÑO/SOUTHERN OSCILLATION (ENSO) DIAGNOSTIC DISCUSSION

issued by
CLIMATE PREDICTION CENTER/NCEP/NWS
9 November 2023

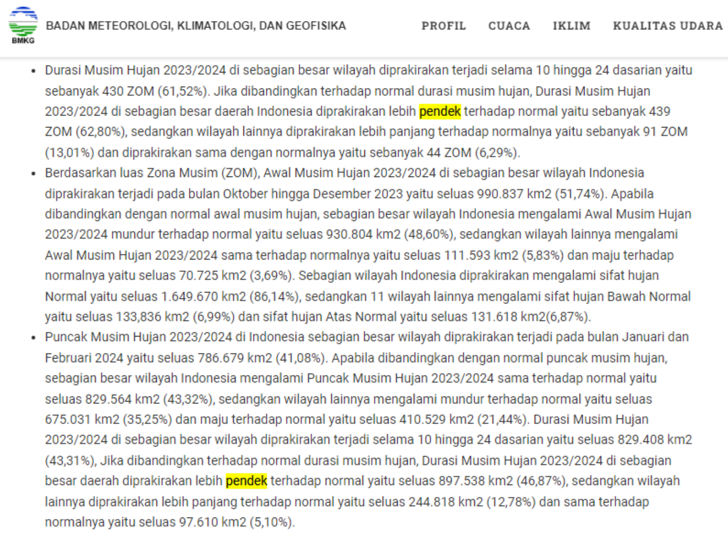
ENSO Alert System Status: El Niño Advisory

Synopsis: **El Niño is anticipated to continue through the Northern Hemisphere spring (with a 62% chance during April-June 2024).**

Above-average sea surface temperatures (SST) across the equatorial Pacific Ocean [Fig. 1] were indicative of a strong El Niño, with anomalies increasing in the central and east-central Pacific in the past month. The latest weekly Niño index values were +1.4°C in Niño-4, +1.8°C in Niño-3.4, +2.1°C in Niño-3, and +2.2°C in Niño-1+2 [Fig. 2]. Area-averaged subsurface temperatures anomalies increased slightly [Fig. 3] associated with the initiation of a downwelling oceanic Kelvin wave, which strengthened above-average subsurface temperatures in the central equatorial Pacific [Fig. 4]. Low-level wind anomalies were westerly in the east-central Pacific, while upper-level wind anomalies were easterly in the western and central Pacific. Convection/rainfall was enhanced around the International Date Line, extending into the eastern Pacific. Suppressed convection/rainfall strengthened around Indonesia [Fig. 5]. The equatorial Southern Oscillation Index (SOI) and the station-based SOI remained negative. Collectively, the coupled ocean-atmosphere system reflected a growing El Niño.

Source : NOAA

Exhibit 70. BMKG predicts a shorter duration of rain in FY23/FY24.



BADAN METEOROLOGI, KLIMATOLOGI, DAN GEOFISIKA PROFIL CUACA IKLIM KUALITAS UDARA

- Durasi Musim Hujan 2023/2024 di sebagian besar wilayah diprakirakan terjadi selama 10 hingga 24 dasarian yaitu sebanyak 430 ZOM (61,52%). Jika dibandingkan terhadap normal durasi musim hujan, Durasi Musim Hujan 2023/2024 di sebagian besar daerah Indonesia diprakirakan lebih pendek terhadap normal yaitu sebanyak 439 ZOM (62,80%), sedangkan wilayah lainnya diprakirakan lebih panjang terhadap normalnya yaitu sebanyak 91 ZOM (13,01%) dan diprakirakan sama dengan normalnya yaitu sebanyak 44 ZOM (6,29%).
- Berdasarkan luas Zona Musim (ZOM), Awal Musim Hujan 2023/2024 di sebagian besar wilayah Indonesia diprakirakan terjadi pada bulan Oktober hingga Desember 2023 yaitu seluas 990.837 km2 (51,74%). Apabila dibandingkan dengan normal awal musim hujan, sebagian besar wilayah Indonesia mengalami Awal Musim Hujan 2023/2024 mundur terhadap normal yaitu seluas 930.804 km2 (48,60%), sedangkan wilayah lainnya mengalami Awal Musim Hujan 2023/2024 sama terhadap normalnya yaitu seluas 111.593 km2 (5,83%) dan maju terhadap normalnya yaitu seluas 70.725 km2 (3,69%). Sebagian wilayah Indonesia diprakirakan mengalami sifat hujan Normal yaitu seluas 1.649.670 km2 (86,14%), sedangkan 11 wilayah lainnya mengalami sifat hujan Bawah Normal yaitu seluas 133,836 km2 (6,99%) dan sifat hujan Atas Normal yaitu seluas 131.618 km2(6,87%).
- Puncak Musim Hujan 2023/2024 di Indonesia sebagian besar wilayah diprakirakan terjadi pada bulan Januari dan Februari 2024 yaitu seluas 786.679 km2 (41,08%). Apabila dibandingkan dengan normal puncak musim hujan, sebagian besar wilayah Indonesia mengalami Puncak Musim Hujan 2023/2024 sama terhadap normal yaitu seluas 829.564 km2 (43,32%), sedangkan wilayah lainnya mengalami mundur terhadap normal yaitu seluas 675.031 km2 (35,25%) dan maju terhadap normal yaitu seluas 410.529 km2 (21,44%). Durasi Musim Hujan 2023/2024 di sebagian besar wilayah diprakirakan terjadi selama 10 hingga 24 dasarian yaitu seluas 829.408 km2 (43,31%), Jika dibandingkan terhadap normal durasi musim hujan, Durasi Musim Hujan 2023/2024 di sebagian besar daerah diprakirakan lebih pendek terhadap normal yaitu seluas 897.538 km2 (46,87%), sedangkan wilayah lainnya diprakirakan lebih panjang terhadap normal yaitu seluas 244.818 km2 (12,78%) dan sama terhadap normalnya yaitu seluas 97.610 km2 (5,10%).

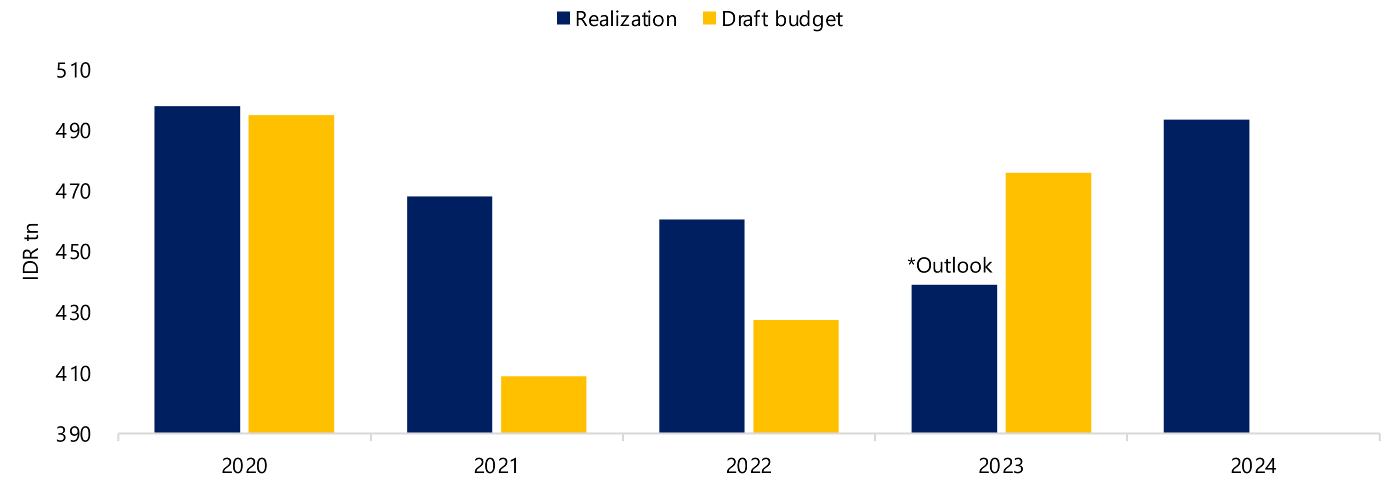
Source : BMKG

Exhibit 71. Social assistance in FY24F is more focused on education, as there are no additional quotas for the Family Hope Program (PKH) and Staple Foods

Policies	2023 Draft	2024 Draft
Budget	IDR476.0tn (IDR439.1tn outlook)	IDR493.5tn
Family Hope Program (PKH)	10mn KPM	10mn KPM
Social Assistance for Staple Foods (Bansos sembako)	18.8mn KPM	18.8mn KPM
Smart Indonesia Program (PIP)	20.1mn students	20.8mn students
Smart Indonesia Card-College (KIP Kuliah)	978.4k students	1mn students
National Health Insurance Assistance (JKN-PBI)	96.8mn participants	96.8mn participants
JKN-PBPU, PBIII	-	49.6mn participants
Microcredit Program (KUR)	9.1mn debtor	12mn debtor
Village Direct Cash Transfer (BLT Desa)	4.7mn KPM	3.0mn
Pre-employed Card (Kartu prakerja)	500k participants	-
Subsidy (electricity, LPG 3kg, etc)	IDR289.3tn	19.6mn kl (fuel oil) 8.0mn mt (LPG 3kg)

Sources : MoF, MNCS (KPM : beneficiary families)

Exhibit 72. Social assistance draft budget vs realization



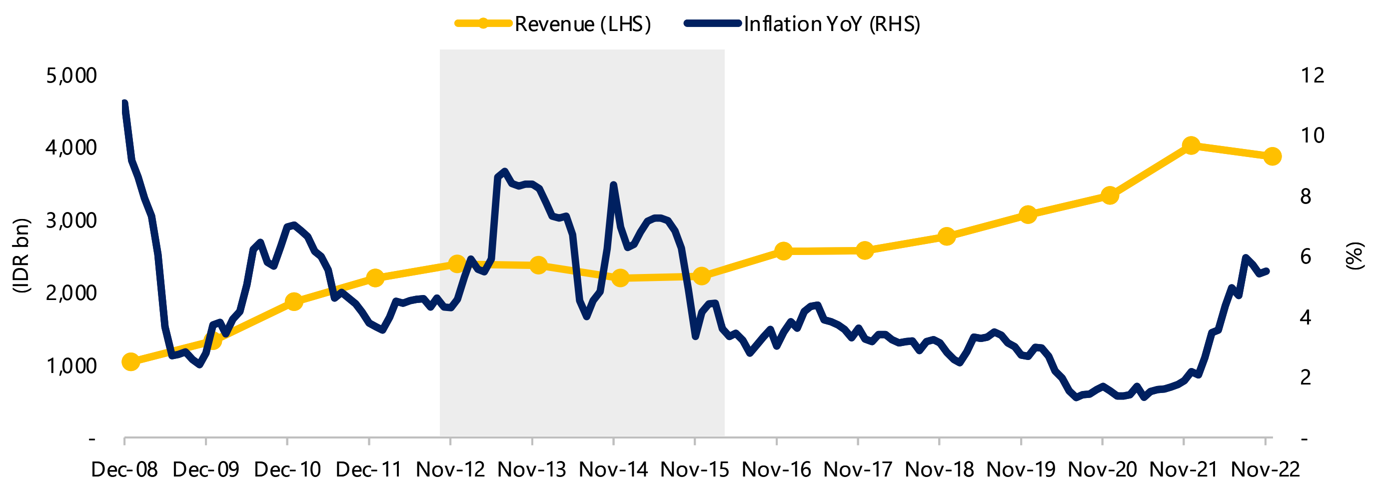
Sources : MoF, MNCS

Exhibit 73. Our price estimate for sugar-sweetened beverages taxation

Company	Product	Sugar (gr)	Capacity (ml)	Threshold (6gr/100ml)	Price (IDR)	Excise (IDR)	Potential Price (IDR)	Increase
ICBP	Ichi Ocha Minuman Teh Melati	18	350	Below	3,200	-	3,200	-
	Indomilk Susu CairUHT Korean Banana	17	180	Above	5,200	117	5,317	2.3%
	Coco Bit Splash Mango	40	350	Above	7,000	228	7,228	3.3%
	Indomilk Susu Cair UHT Korean Pink Blossom	15	180	Above	5,300	117	5,417	2.2%
	Indomilk Susu Cair UHT Korean Black Latte	15	180	Above	5,300	117	5,417	2.2%
	Indomilk Susu Cair UHT Chocolate	15	180	Above	5,300	117	5,417	2.2%
MYOR	Kopiko Coffee Latte 78C	20	240	Above	7,500	156	7,656	2.1%
	Pucuk Harum Minuman Teh less Sugar	12	350	Below	3,700	-	3,700	-
	Pucuk Harum Minuman Teh Melati	18	350	Below	3,700	-	3,700	-
	Tujuh Kurma Susu Steril Kurma	19	189	Above	10,400	123	10,523	1.2%
	Tora Cafe Minuman Iced Cappuccino	14	180	Above	4,700	117	4,817	2.5%
	Tora Cafe Minuman Iced Milky Latte	9	180	Below	4,700	-	4,700	-
ULTJ	Ultra Susu UHT Steril Slim Plain	8	200	Below	6,000	-	6,000	-
	Ultra Susu UHT Steril Slim Coklat	19	200	Above	6,000	130	6,130	2.2%
	Ultra Susu UHT Steril Slim Strawberry	19	200	Above	7,500	130	7,630	1.7%
	Ultra Mimi Susu Cair UHT Full Cream	6	125	Below	3,900	-	3,900	-
	Ultra Mimi Susu Cair UHT Chocolate	15	125	Above	3,900	81	3,981	2.1%
	Ultra Teh Kotak Less Sugar	17	300	Below	4,000	-	4,000	-
	Ultra Sari Asam Asli Slim	28	250	Above	6,300	163	6,463	2.6%
CMRY	Cimory Fresh Milk UHT Hazelnut	20	250	Above	7,000	163	7,163	2.3%
	Cimory Fresh Milk UHT Chocolate	18	200	Above	7,000	130	7,130	1.9%
	Cimory Fresh Milk UHT Almond	20	250	Above	6,900	163	7,063	2.4%
	Cimory Yoghurt Drink Strawberry	24	240	Above	9,100	156	9,256	1.7%
	Cimory Yoghurt Drink Lychee	25	240	Above	9,100	156	9,256	1.7%
	Cimory Yoghurt Drink Mix Fruits	25	240	Above	9,100	156	9,256	1.7%
KINO	Cap Panda Minuman Cincau	20	310	Above	7,500	202	7,702	2.7%
UNVR	Buavita Guava Apple	23	250	Above	8,300	163	8,463	2.0%
	Buavita Guava Mangga	24	250	Above	8,300	163	8,463	2.0%

Sources : Various Source, MNCS

Exhibit 74. A strong El-Nino events in FY15 resulted in high inflation reaching ~8% YoY and impacted SIDO's top-line, which increased only by +0.9% YoY



Sources : BPS, Company, MNCS

Healthcare
Neutral

Accommodative policy to Cushion against Headwinds

Impending KRIS implementation; possibly launch by FY25F

- The government has yet to implement the standard inpatient class (KRIS) system to replace the current classification system on JKN. The planned uniform fixed rate is also bound to be announced after revisions on Presidential Decree 82/2018 on Health Insurance are publicized, but that won't be until FY25F. We view that the imposed fixed rate should be carefully weighed based on the economic capabilities of the class.
- If we take a look at the profile of JKN's beneficiaries, a huge portion is comprised of class 3 beneficiaries. Throughout FY16-FY21, the class 3 cohort has made up around 68-69% of the entire JKN beneficiaries.
- Hence, if the government decides to implement a fixed rate, it should primarily consider the purchasing power of the class 3 cohort. In FY21, the average billing per capita ranged at IDR47-48k/month.
- However, we acknowledge that the government has anticipated to maintain the growth of JKN beneficiaries through coordination of benefit (CoB) scheme between BPJS and private health insurances. This collaboration would benefit the industry by splitting the burden of providing affordable and widely accessible healthcare between the government and the private sector. We assess that HEAL will benefit the most from this implementation, as ~60% of its revenue is derived from JKN. On the other hand, SILO's (~18%) and MIKA's (~13%) JKN segment are only a minority, as they primarily focus in the premium segment.

Brand new healthcare act; paving the way for impeccable service

- Despite the government already having ratified the new healthcare act in Aug-23, we believe it to still be a relevant discussion point. The fact of the matter is that the mid-to-upper class opts towards overseas healthcare services for their medical treatments, instead of home.
- In FY20 alone, outbound Indonesian patients reached 1mn, equivalent to ~USD11.5bn/year of spending potential vaporizing from the domestic healthcare sector. Based on Ministry of Health's data, from the 7 categories of specialists within the country, none exceeds the ratio of 0.03 per 1,000 citizens. This is way below Bappenas's ideal level of 0.28 specialists per 1,000 citizens.
- Through the enactment of the new law, there is an expectation for a greater inclination towards domestic healthcare services as opposed to foreign alternatives. We believe this regulation should also streamline the process for issuing medical and practice licenses for doctors. One of the main issues addressed by the formulation of this particular act is: 1) raising the number of specialists; 2) simplification of the license application process for foreign medical graduates of Indonesian nationality as well as foreign doctors' license.

- The number of specialists in Indonesia as per Indonesia's Doctor Council's records is just shy of ~50k as of Nov-23, whereas WHO's recommendation for Indonesia is closer to the figures of ~80k.
- We view that the immediate benefit from the new act's ratification will not be tangibly felt until later on, as the implementation would take time. In the future, hospital operators are bound to receive benefits including: 1) the abundance of doctors whether domestic or international; 2) potential of an increase in the number of hospitals and upgrades to level-A facilities.
- EAL plans on opening up at least 4 new hospitals in Madiun, Pasuruan, IKN and PIK Jakarta, two of which would be up to international standards. On the other hand, SILO is primed towards expanding their existing hospitals' capacities. MIKA also plans on adding 2 new hospitals to their portfolio, although to date further details on the planned locations have yet been disclosed.

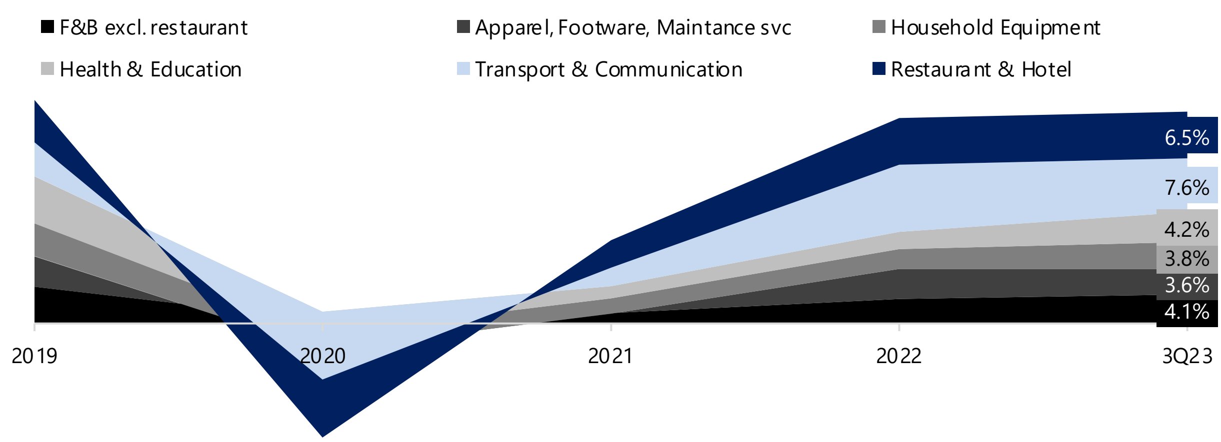
NEUTRAL Outlook with Top Picks : HEAL and SILO

We maintain a NEUTRAL Outlook for the health sector because its implementation still needs to be studied further. We see that the back-and-forth policy and regulation hampers the expansion of the sector. However, there are still some companies which we believe to still possess the potential to perform in FY23F with their bargaining power in the sector, such as: HEAL IJ (BUY; TP: IDR1,630) and SILO IJ (BUY; TP: IDR1,500). Risks: 1) IDR depreciation; 2) Regulation delays or uncertainties.

Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
HEAL IJ	22.0	49.3	38.1	5.7	5.1	BUY	1,630
MIKA IJ	38.5	30.2	28.6	5.3	4.6	HOLD	2,680
SILO IJ	28.7	21.0	19.8	2.3	2.1	BUY	1,500

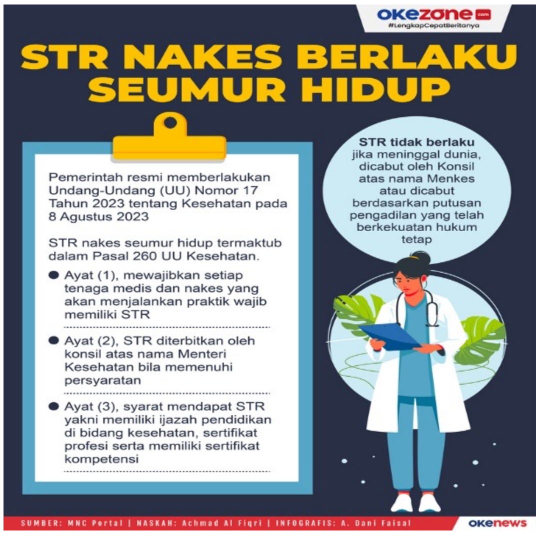
Exhibit 75. Trend of Household Consumption Growth in FY19-3Q23

Household consumption of health and education experienced growth of 4.2% YoY in 3Q23



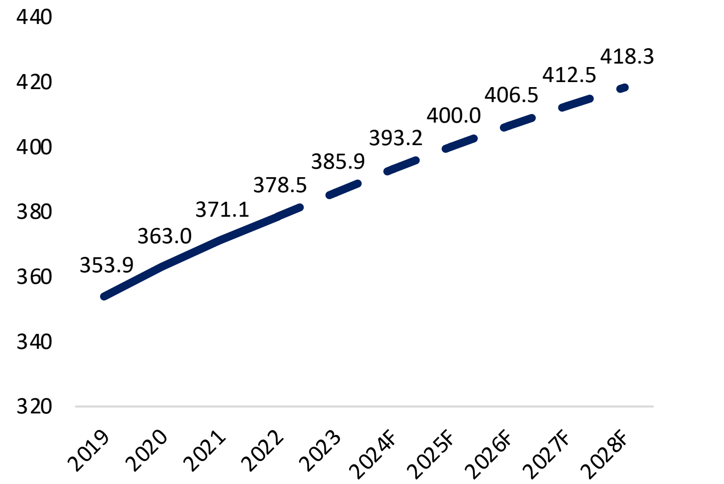
Sources : BPS, MNCS

Exhibit 76. Implementation of the latest health law



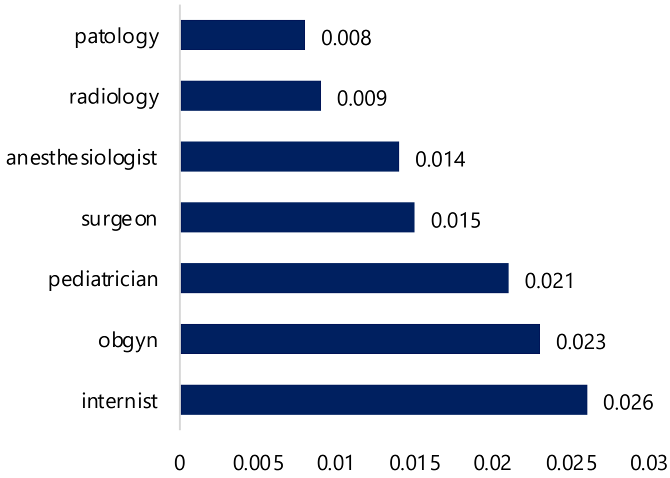
Sources : Antara, Okezone, MNCS

Exhibit 77. The trend of hospital beds Indonesia in FY19-FY28F (in thousand unit)



Sources : Statista, MNCS

Exhibit 78. Ratio of 7 Types of Specialist Doctors per 1,000 Population in Indonesia



Sources : Statista, MNCS

Metal Mining
Neutral

Highway for Precious Metals; Base Metals to be Left Behind

Gold likely to budge higher
For the bigger part of the year, gold has outperformed other contenders in the metal category, bolstered by high geopolitical elusiveness, as well as robust demand from central banks in their strive to boost gold reserves. According to World Gold Council, central banks around the world had added c. 800 tons of gold throughout 9M23, a new record, 14% higher than 9M22. During 3Q23 alone, China's central bank accrued a total of 78 tons of this safe haven asset given their persisting economic turmoil, followed by Poland (57 tons), Turkey (39 tons and India (9 tons). Middle Eastern escalations, Black Sea instability and risks of Russian-style sanction by the US and European hegemony amid an overarching theme of economic instability have made central banks an avid purchaser of gold, coinciding with their huge price movements since the Covid-19 pandemic (total 1,136 tons purchased in FY22, up from 450 tons in FY21). US inflation rate have reached an inflection point; the market's recent hoarding towards US treasuries as the Fed's pivoting signal becomes more readily apparent to take place in 2Q23 and some even speculating as soon as 1Q23, points towards a strong upside for gold. If the recovery from the likely bumpy economic landing next year plays out swiftly, gold could reach beyond c. USD2,150/ton in 2H24.

Expecting a wooden nickel in FY24F
Nickel was one of the sluggish-performing metals this year, having contracted c. 45% YTD from FY22's high-base rally and a vast surplus situation as a product of Indonesia's aggressive mining output expansion (up 54% YoY to 1.6mn tons in FY22, according to USGS). The supply glut was amplified by China's increasing Class I nickel output by 36% YoY throughout 9M23, and is expected to continue rising as down-streaming endeavors by the fusion of China's technology and Indonesia's reserves have allowed intermediary products output such as mixed hydroxide precipitate (MHP) and NPI conversion to nickel matte to grow. The fate for this particular industrial base metal might not necessarily reverberate an upbeat tune in FY24F; China's slacking economic activity and unabating real estate plunge remains the main party pooper as they uptake 60% of the global metal supply. Supply's outpacing of demand in FY24F (INSG forecasts surplus to broaden to 239k tons) should subdue nickel price movements; the 5Y futures curve have slid from FY22's USD22.2k-33.3k/ton down to USD16.4k-21.4k/ton and reformed a contango from FY21's backwardation trend, but should be bullish on the longer term on the global electrification push.

A slowdown portended for copper
One of the notorious economic health indicator have slumped more than 11% YTD on China recovery woes. The Fed's pivoting narrative should revamp vigor back into copper prices, but that is unlikely before FY2025F or after the Chinese economy jumpstarts from its government's accommodative policies. We think copper could hover at USD8,500/ton throughout 2H24. A surplus risk looms for FY24F, as international forecast study group (ICSG) expects the refined copper market to reach an oversupply of 467k tons. Over the long term, however, copper should still be bullish as it holds a key role in the global green transition, used in everything from EVs to turbines and power grids, offsetting further losses if the market only depended on conventional avenues such as the property sector. There looms a supply risk from Chile as the world's largest copper producer, who struggles to revive production back to its pre-Covid levels to 1.7mn tons from 1.3mn tons in FY23E, weighed by depreciating assets and receding ore grades.

Our metal miners' fate

ANTM is looking at a potential c. 13k tons of additional ferronickel production in FY24F from its newly, soon-to-be-commissioned (in 4Q23) Halmahera Timur smelter. The company should also enjoy correlative sentiments from gold's momentum. Solid top-line growth is to be expected while not necessarily followed by a margin expansion from weak nickel prices and ANTM's position as gold price taker. We project its EPS to grow by 0.4% YoY in FY24F, and is currently being traded at a discount. Risks for the company includes the ongoing Budi Said lawsuit which could entail a substantial loss if ANTM concedes. **MDKA** flaunts a busy project pipeline in the works, of immediate impact towards FY24F's performance being the newly commissioned MBMA RKEFs with 88k tons of nameplate capacity. The nickel segment (c. 80.4%) will completely overshadow gold (c. 11.2%) and copper (c. 9.0% in FY24F). Recovering economies of scale indicated by 3Q23's positive net profit of USD25mn should bode well for MDKA's margins. We forecast their EPS to reach c. IDR56.8/share or grow 52,637% YoY in FY24F. **INCO**, as a pure nickel player, is likely to see muted top line growth on subdued nickel prices. EPS is forecasted to slip 16.7% YoY in FY24F.

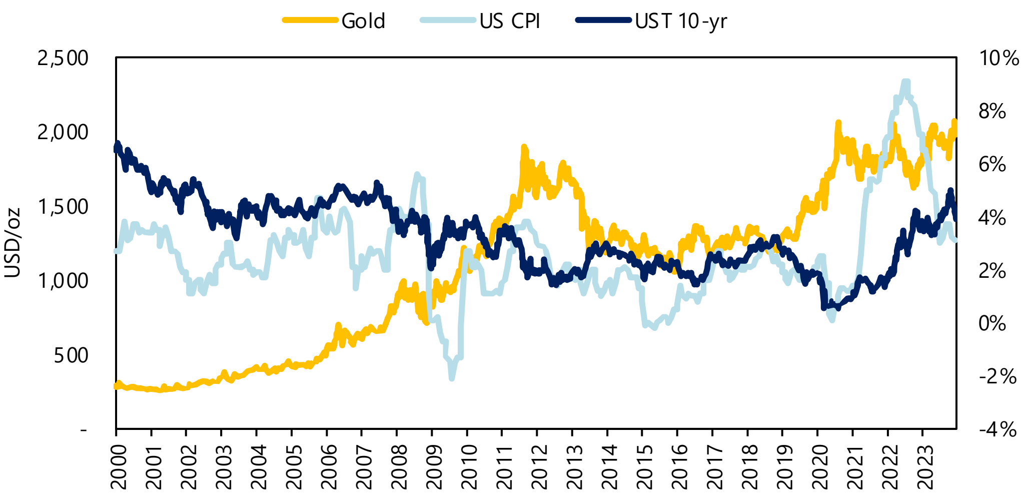
NEUTRAL recommendation for the metal mining sector

We call a **NEUTRAL** rating for the metal mining sector. We incline towards ANTM and INCO with a TP of IDR2,080/share and IDR5,500/share (potential return of 26.8% and 31.9%), due to their undemanding valuations. MDKA, on the other hand, a positive profit turnaround in FY24F, while still carrying risk of margin-chipping processing costs.

Ticker	Mkt Cap (IDR tn)	EV/EBITDA (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
ANTM IJ	39.4	8.0	7.6	1.2	0.9	BUY	2,080
INCO IJ	41.5	4.6	5.3	1.2	1.1	BUY	5,500
MDKA IJ	55.7	17.6	11.2	3.6	2.9	HOLD	3,030

Gold prices and the UST 10-yr yield historically has a strong inverse correlation. It is blatantly apparent, however, since the Fed's aggressive QE as a follow up to the Covid-19 disruption, sending the 10-yr yields to fly without necessarily being met with significant pushback from gold, possibly signifying a new standard high rates to linger for longer and a higher base point for gold, with USD's to loosen up.

Exhibit 79. Gold facing upside if UST yields trends lower as markets price in growth slowdown

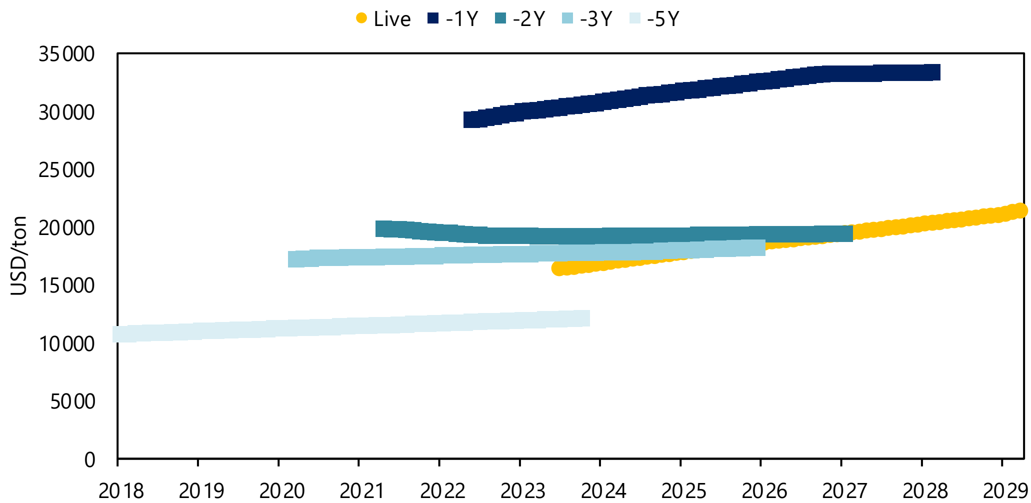


Sources : Bloomberg, MNCS

Metals back to contango

The trend in historical nickel LME futures indicate that the market has tamed its overly bullish stance from a backwardation trend 2 years ago and a high base 1 year ago, in line with the supply surplus condition. It remains a crucial metal for the green transition going forward as the recent futures curve range settle higher (USD16.4k-21.4k/ton) than the curve range 5 years ago (USD10.7k-12.1k/ton).

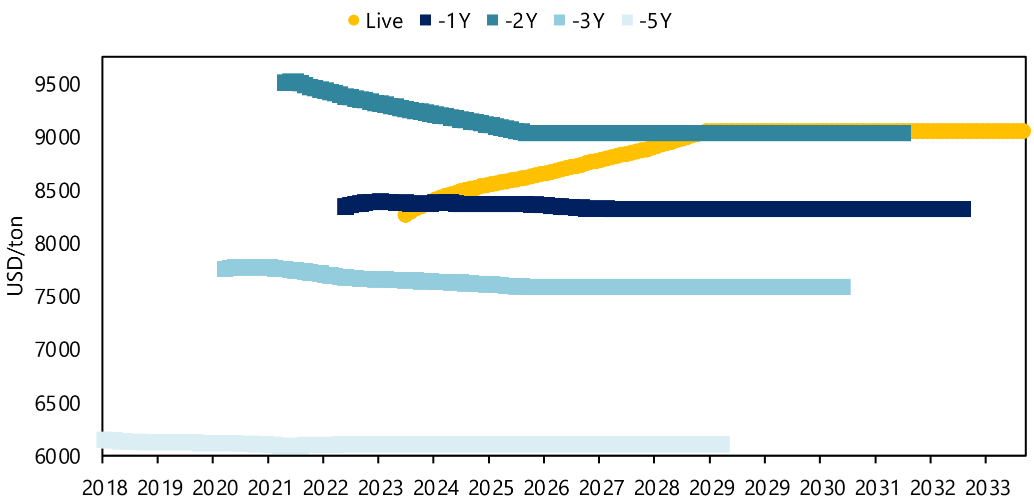
Exhibit 80. Nickel to take a breather for the next few years; prospects still strong



Sources : Bloomberg, MNCS

Copper's futures curve have shifted upwards (USD8.3k-9.1k/ton) from 5 years ago (USD6.1k-6.2k/ton), indicating demand growth for copper. The curve this year has shifted to a contango from the usual backwardation, signifying a cooldown in demand for the red metal amid solid supply.

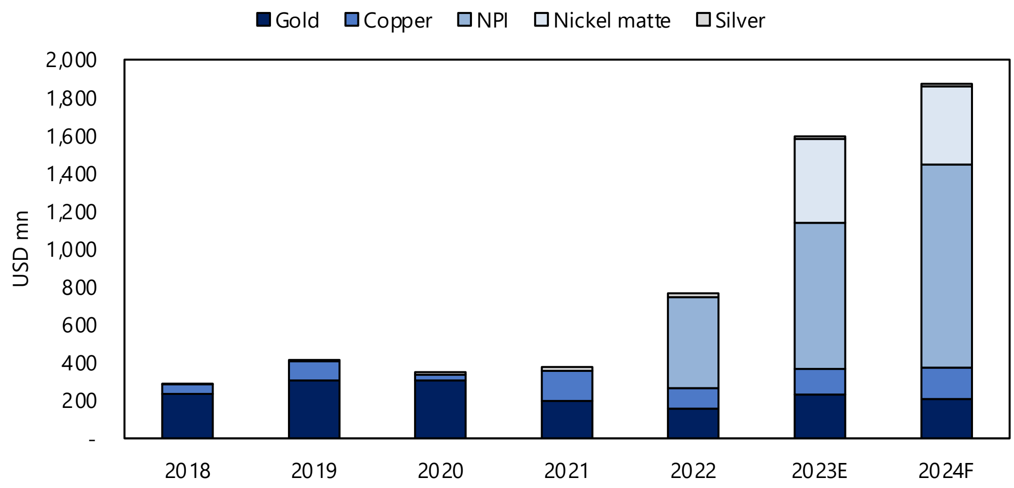
Exhibit 81. Copper futures curves indicate a slowdown in demand from previous years' rush



Sources : Bloomberg, MNCS

MDKA
Volume play: NPI volume boost to prop up revenue growth in 2024F, while ASP is expected to be be lackluster compared to this year.

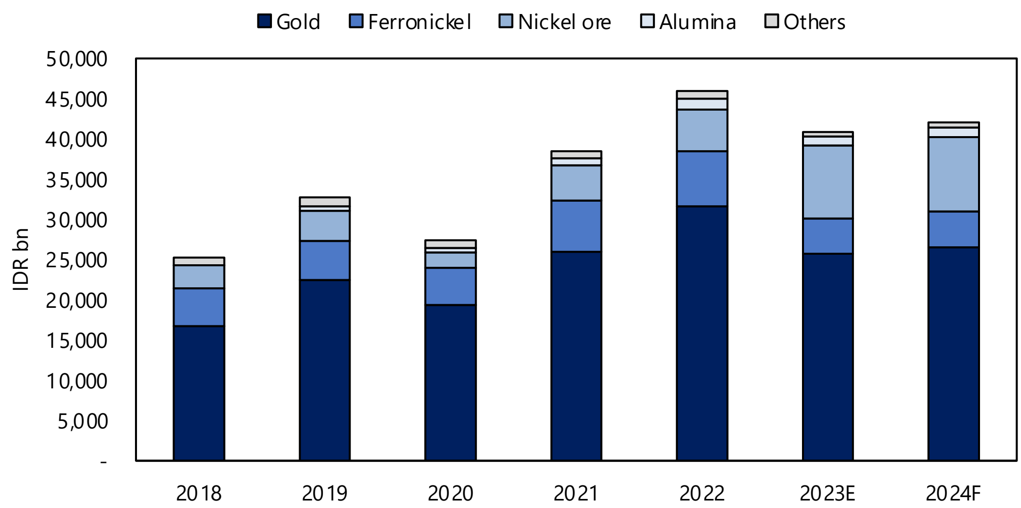
Exhibit 82. MDKA's revenue trend



Sources : Bloomberg, MNCS

ANTM
This year's top line is supported by nickel ore's ramped up production (+71.2% YoY) though accompanied with a lower ASP. We expect next year's ASP to remain muted for the nickel segments, but higher for gold.

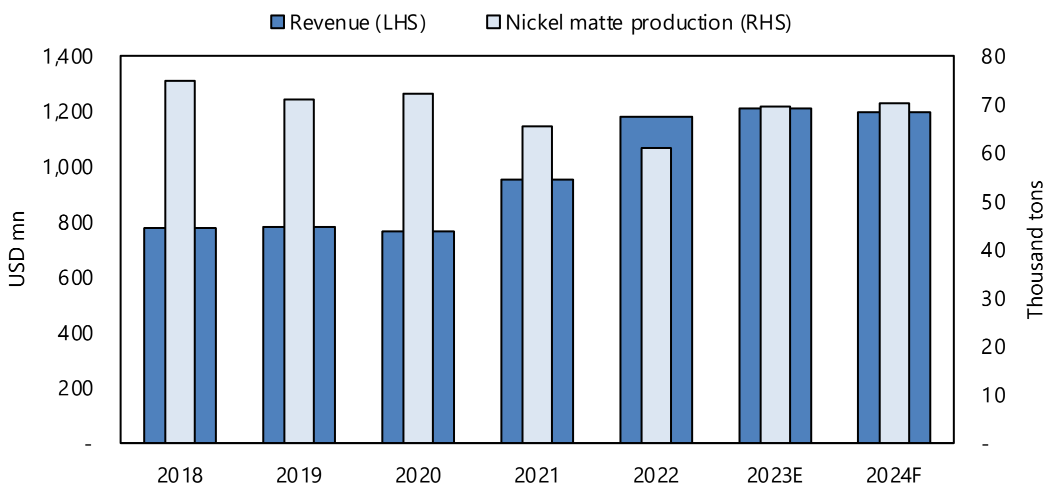
Exhibit 83. ANTM's top line growth trend



Sources : Bloomberg, MNCS

INCO
INCO's production to notch above 70k tons but challenged with ASP plateau.

Exhibit 84. INCO's production and top line trend



Sources : Bloomberg, MNCS

Oil & Gas
Neutral

Venturing Into the Unknown for the Days Ahead

Diminishing oil price due to monetary policy offset by OPEC production and Geopolitical tension

Brent crude oil prices shrugged by -17.7% YoY to USD78.1/bbl in Nov-23 and touched their lowest level since FY22, at USD71.8/bbl in Jun-23. Global oil prices experienced high volatility due to monetary policy tightening and production cuts from OPEC. OPEC's production cuts and Geopolitical tension helped raise crude oil prices to USD96.7/bbl in Sep-23 but rising production from the United States and non-OPEC countries offset the rise. The US economy is expected to grow slowly or even experience a recession in FY24F, at maximum around 1% YoY, subduing the prospect of crude prices. In the longer term however, oil prices are likely to tread higher as the economy recovers. The war between Israel and Palestine presents two possibilities towards crude prices; in the first scenario, if the war spreads to Lebanon and Syria, oil prices could rise up to around USD90/bbl. The worst-case scenario for the conflict is a direct war between Israel and Iran. If this happens, oil prices could rise above USD140/bbl and hamper economic growth.

Economic contraction also contributes to lower natural gas prices

In FY23, natural gas prices experienced a significant decline of -19.4% YTD, reaching a level of USD3.1/MMBTU. This downward trend was primarily driven by a slowdown in global economic growth and EU's lower dependency of natural gas also affected the decline. However, the conflict between Israel and Palestine caused a surge in natural gas prices of +35% since Oct-23 due to disruption in supply caused by the closure of a major natural gas production facility in Israel. Natural gas prices are expected to rise by a limited amount of +1.6% YoY in FY24F, and by +1.9% YoY in FY25F mainly driven by the demand in China that increases +7% YoY each year. On the supply side, global production is expected to grow by +1.6% YoY.

Indonesia's government trimmed its production aim for both oil and gas in FY24F

For FY24F, Indonesia targets the Indonesia Crude Price (ICP) to be at USD82/bbl (vs USD with a target of 635,000 BOPD (vs 660,000 BOPD in FY23E). Seeing that the production realization in FY23E was below target, at 580,916 BOPD, the government lowered the production target for FY24F. On the other hand, Indonesia's gas lifting reached 6,730 MMSCFD until Nov-23, or exceeding FY23E's target of 6,600 MMSCFD. This surge was driven by increasing local demand for cleaner energy and LPG. Meanwhile, the government targets natural gas lifting of 1,033 MBPD in FY24F (vs 1,100 MBPD for FY23E).

What lurks ahead for oil & gas companies under our coverage

We project **AKRA**'s top line to grow by +2.2% YoY driven by the solid land sales segment (projected to grow by +39.2% YoY) and its increasing contribution AKRA's overall revenue (to account 5.1% by FY24F from 3.8% in FY23E). Though its petroleum segment (projected to grow +4.35% YoY; accounts for 72.5% in FY24F) is likely to stagnate from muted crude oil price projections in FY24F, growth in sales volume is likely to act as a buffer. AKRA will also enjoy higher recurring income as the copper smelter's set to be operational by May-24, as well as higher finance incomes from ample cash position accompanied by high interest rates, enabling a potential bottom-line growth of +8.1% YoY in FY24F, assuming FY23E's net profit comes at IDR2.5tn.

Despite **MEDC** having faced challenges in 9M23 YoY due to the prices fall of oil (-24% YoY) and gas (-16% YoY) and a significant dip of AMMN's profit post IPO to USD13.2mn, MEDC successfully embarked 20% stakes of 2 blocks Exploration and Production Sharing Agreements (EPSA) from OQ Exploration & Production LLC (OQEP) in Oman, valued at USD605mn. This acquisition includes production capacities of 60,000 bpd from block 60 and block 48, spanning 3,000km square, which is currently under exploration but holds significant prospect, potentially contributing to 13mboepd to the group's daily production (+8.1% 9M23). With a profit after tax split of 35% for MEDC and 65% of Oman government, we forecast the robust recovery of net profit growth of +49.9% YoY in FY24F.

PGAS is poised for significant business expansion through the integration of distribution infrastructure and services in Batam area, boasting a 273.5km pipeline that caters to 5,971 customers. Additionally, PGAS has signed the renewal of the Gas Sale and Purchase Agreement (PJBG) with MEDC, securing around 400bn BBTUD from the Corridor Block for FY24F-FY28F. Despite a +2% YoY increase in revenue for 9M23, PGAS faced challenges as its EBITDA declined by -13% YoY, and net profit plummeted by -36% YoY. These setbacks were attributed to a +7% YoY rise in the cost of revenue, diminishing key upstream supply, one-off tax and contract provision, and the Ministry of Energy and Mineral Resources (ESDM) withholding approval for the non-HGBT new pricing scheme. Hence, we projected the net income to grow +10.8% YoY in FY24F with 1.8x EV/EBITDA.

NEUTRAL recommendation for the oil & gas sector

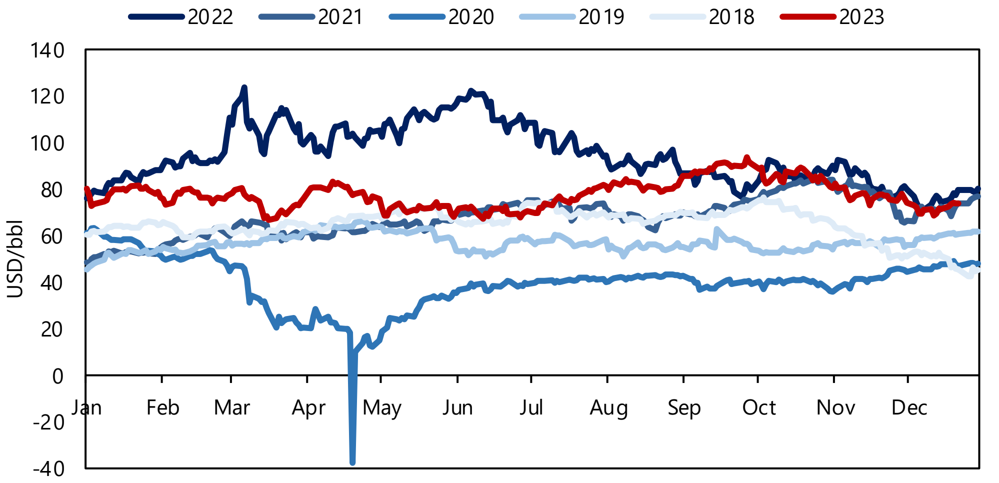
We call a **NEUTRAL** rating for the oil and gas sector; though crude oil prices continually approached the harbinger of a significant rallies this year, we think the diminished momentum that followed was due to a fundamentally waning growth of the global economy; which the OPEC took note of and therefore issued production cuts to maintain the prices in motion. We like AKRA and MEDC each with a TP of IDR1,700 and IDR2,050, implying FY24F EV/EBITDA of 9.7x and 1.5x, respectively. Risk to our call includes 1) meager land sales contracts, 2) lackluster economy growth to hamper petroleum sales volume and 3) drag ASP deeper than expected, as well as 4) escalations of geopolitical frictions which induce market volatility and supply chain disruptions.

Ticker	Mkt Cap (IDR tn)	EV/EBITDA (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
AKRA IJ	28.8	7.5	6.7	2.0	1.9	BUY	1,700
MEDC IJ	30.0	2.0	1.9	1.6	1.4	BUY	2,000
PGAS IJ	26.9	2.3	2.7	0.5	0.5	HOLD	1,200

Sources : Bloomberg, MNCS Research

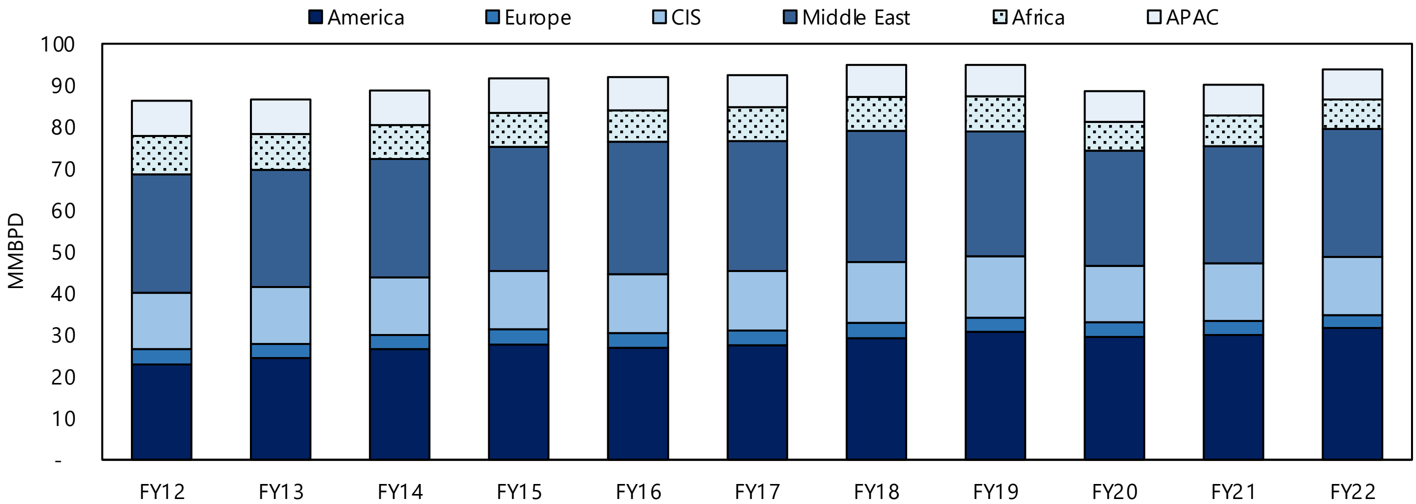
What we've seen on a year-to-date was a sturdy movement in oil prices after a high base FY22 which featured an all-hands-on-deck-type energy supply disruption. This year's mover was the resparked Israel-Palestine conflict which had recently carried over to Red Sea route disruptions, and OPEC cuts.

Exhibit 85. Crude oil price movement throughout FY23E



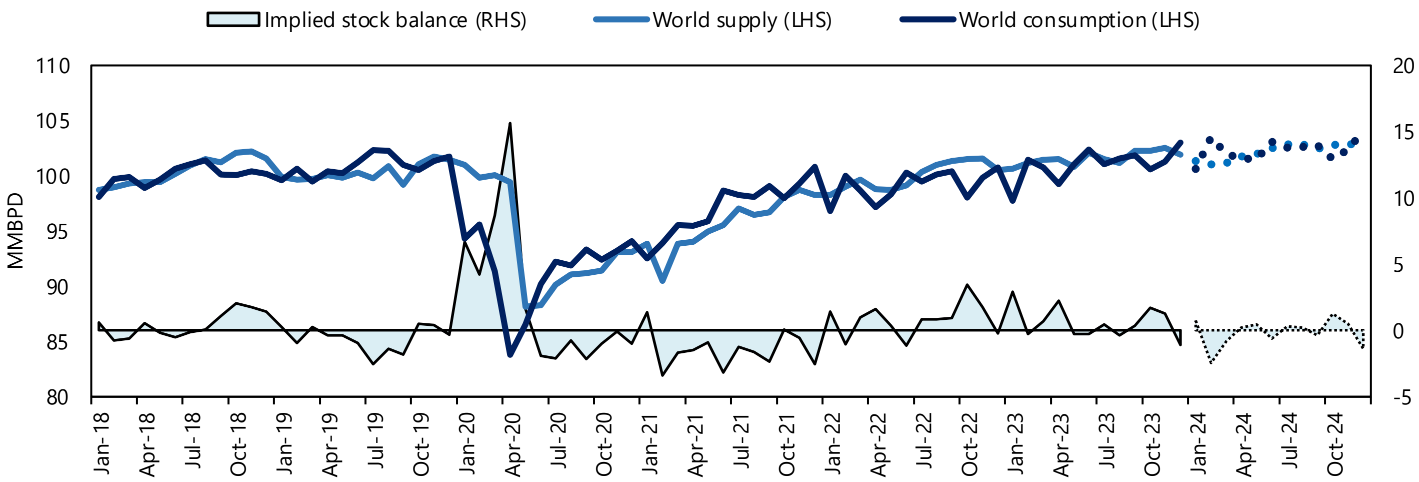
Sources : Bloomberg, MNCS

Exhibit 86. Historical global crude production in millions of barrels per day



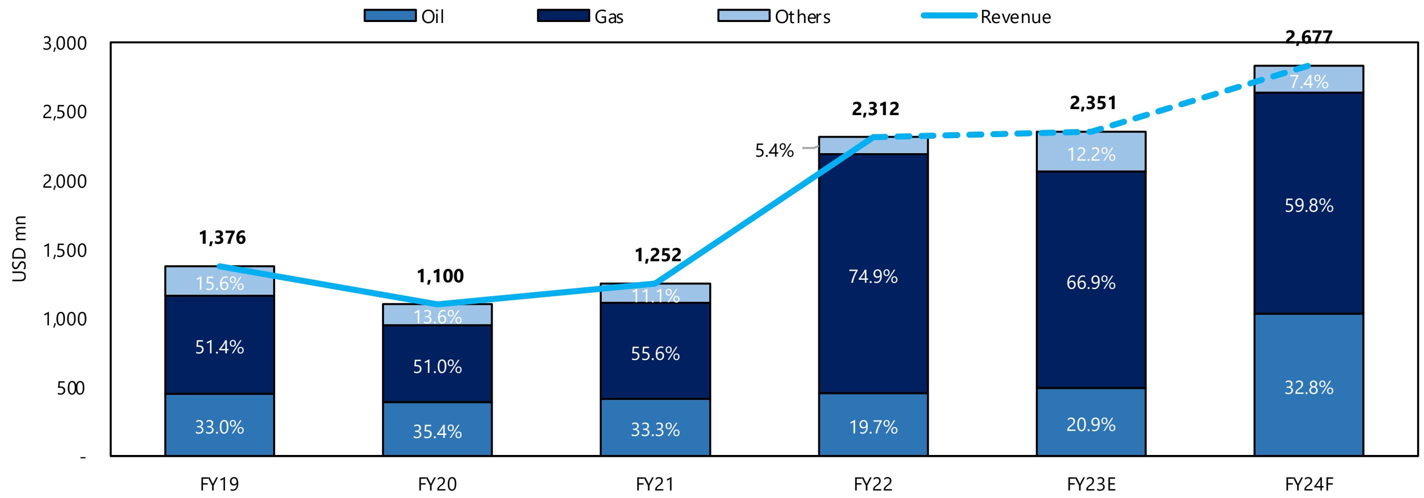
Sources : Energy Institute, MNCS

Exhibit 87. IEA's projection of global crude oil supply-demand



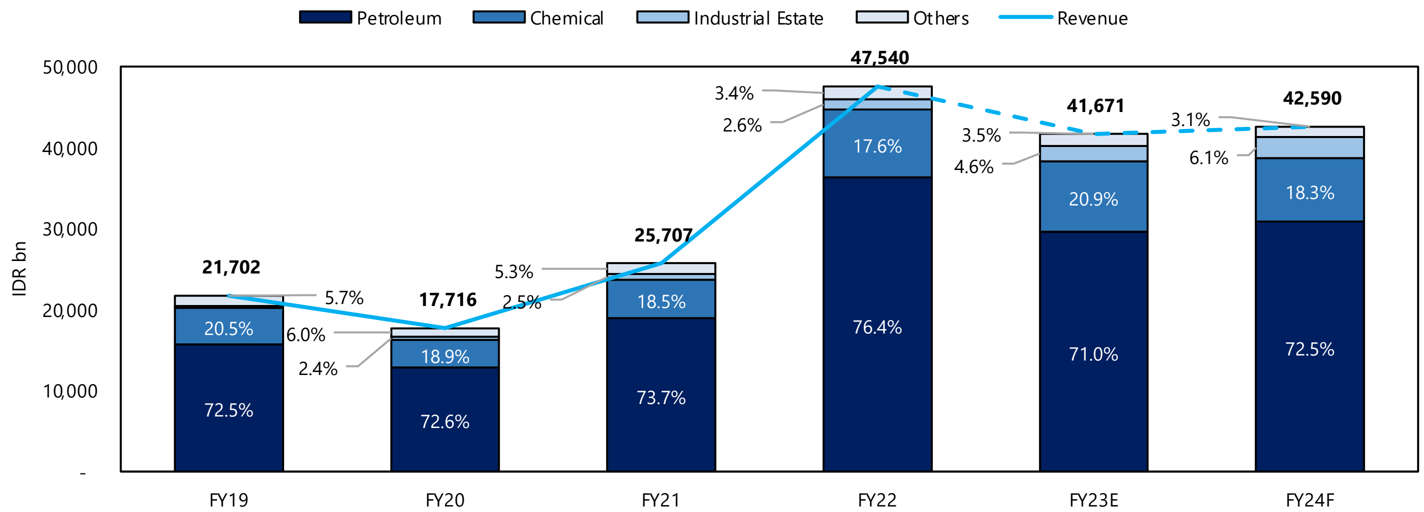
Sources : Bloomberg, IEA, MNCS

Exhibit 88. MEDC's segment contribution profile and projection



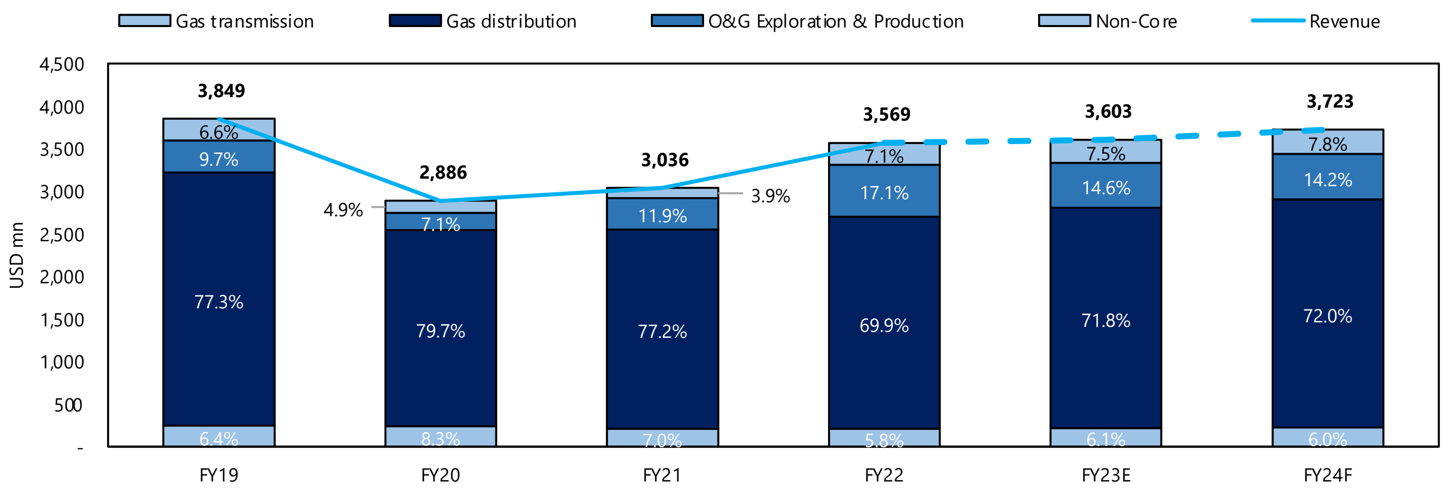
Sources : Company, MNCS

Exhibit 89. AKRA's segment contribution profile and projection



Sources : Company, MNCS

Exhibit 90. PGAS's segment contribution profile and projection



Sources : Company, MNCS

Plantation
Neutral

Anticipating an El Nino-Fueled Rally

Output mostly rose; FY24F unlikely to play out the same

Throughout 9M23, CPO players' output from our universe mostly gained, with DSNG leading the FFB production and CPO production growth by 5.5%/7.5% YoY, AALI trailing with 4.8%/-0.7% YoY, while LSIP's slipped -2.2%/-4.0% YoY. DSNG's and AALI's production growth trend was expected as the triple-dip La-Nina had prepared the planation's water reserves going into El Nino, though missed our projection (see here) for DSNG. LSIP's lackluster production could be attributed by their higher older average tree age (19 years; vs AALI's 15.1 years and DSNG's 13.8 years) as of FY22 and the more volatile precipitation rate (risks of getting less rainfall in more severe El Nino conditions) in LSIP's main operational area in the Sumatera region (particularly South Sumatera which accounts for 44% of LSIP's planted area; see exhibit 93). Based on NOAA's latest prediction (Nov-23), sea-surface temperature (SST) trends in the Nino-3.4 region portends a >55% chance for a strong El Nino to persist in Jan-24 to March-24, increasing the likelihood of disruptive precipitation rate and intense heat in Indonesia, from what was initially expected to be just a moderate El Nino. The lagged effects from El Nino's climate anomaly typically catches on after c. 6 months – a year. In concordance with the belated replanting cycle and aging trees, we expect Indonesian CPO output to further slide upon entering 2H24, possibly up to 1Q25.

Fertilizer burdens no more: FY24F performance should see an EPS growth

The 9M23 top lines of our CPO players unanimously declined; DSNG being the most resilient (-0.3% YoY) bolstered by a 7.4% YoY jump in CPO sales accompanied by a steady ASP (-0.4% YoY), while AALI's and LSIP's slipped -5.1%/-4.0% YoY on plummeting CPO ASP by -23.2%/-11.9% YoY. DSNG's advantage was offset, however, as its net profit fell the deepest by -43.7% YoY (vs AALI's/LSIP's -34.2%/-40.1% YoY), due to inflated COGS (10.8% YoY), selling and G&A expenses (13.1% YoY). Cost burdens came from fertilizers and raw materials (8.9% YoY), also seen in LSIP (8.2% YoY) but not in AALI (-4.2% YoY), as well as rising labor-related costs (20.2% YoY; contrary to AALI that slipped -7.5% YoY) due employee retention efforts to offset waning interest of labor participation in the palm oil industry and maintain output. Going into FY24F, however, we expect fertilizer costs to ease and allow margin expansions. Fertilizer prices have slid down from its 2022 highs and are set to tread around its 10-yr mean of c. USD327-395/ton in FY24F (-16.5% YoY) on subdued energy prices. We therefore readjusted the DSNG bottom line growth projection to 12.8% YoY, AALI to 16.2% YoY and LSIP to 4.5% YoY.

A biodiesel conundrum

Indonesia and Malaysia are expected to drive the non-food demand of palm oil through the newly enacted 35% and 20% blending mandates in both countries, respectively. Through biodiesel production growth (base case is a FY22-FY25F 15.6% CAGR) and higher blends on the way, as well as the newly launched CPO exchange, a price floor for domestic CPO can be secured. Assuming a lackluster crude oil demand in FY24F and no geopolitical escalations, a low-treading WTI price (c. <USD70/bbl) could render the palm oil gas oil (POGO) spread at positive levels in 1H24 and incentivize discretionary CPO blending for biodiesel production. Going into 2H24, however, the diminishing palm oil supply could reverse the POGO back into negative and lead to impositions of higher palm oil levies to exporters. We view DSNG to be hedged from this unfavorable tweak due to its pure domestic offtake.

Implied demand and price expectations in FY24F

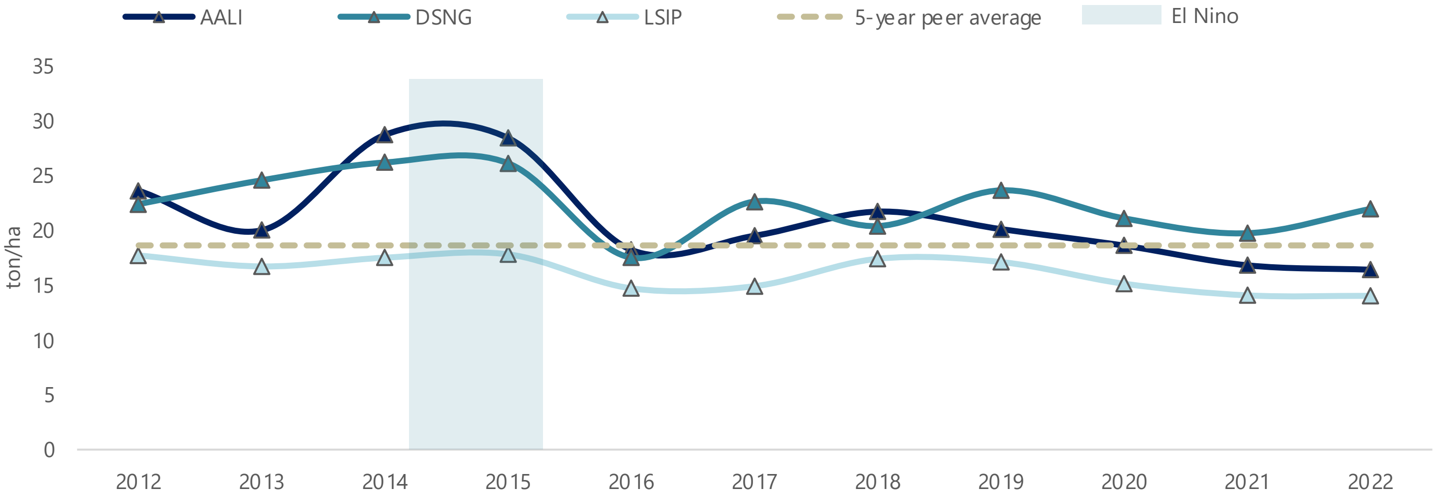
We view that the threat of dwindling CPO output in FY24F has a great chance of driving prices higher on the back of solid demand. The upcoming election year may bolster the Indian consumption and instigate the need to maintain or even raise imports; the nation's economy is projected to steadfastly advance by 6.3% YoY in FY24F. Volatility in CPO price might be seen as soon as 1H24 despite high Malaysian stockpiles at 2.5mn tons as of 10M23 (higher than the 7-yr mean of 2.0mn tons), as Indonesian stockpiles are sliding on strong demand both domestically and internationally. At the same time, El Nino is expected to boost soybean output in the West (already expected to see an output jump of 9% YoY in FY23E) as had happened during 2015-2016's El Nino, capping CPO's potential upside. Overall, we view a base case of CPO prices trending higher in FY24F within the range of MYR3,900-4,150/ton.

NEUTRAL recommendation for the Plantation Sector

We call a **NEUTRAL** stance for the plantation sector; we believe there are convincing catalysts to bolster CPO prices in FY24F, but is also poised to be offset by coinciding factors. The expected slowdown in output from El Nino, a dragged-out replanting intensity and aging trees, in tandem with solid demand from resilient Indian consumption and rising biodiesel blends bodes higher CPO approaching 2H24. At the same time, El Nino is likely to boost soybean productivity, dragging edible oil prices. DSNG's strong output growth through its relatively young prime tree age and their frontrunning ESG initiatives – notably their Bio-CNG system integration – to cut costs and boost ESG scores is underrepresented in its current trading value (c. IDR540/share) as we believe it to be fairly valued at IDR690/share. AALI, albeit older tree age provides a more stable and resilient earnings base against volatility due to its integrated palm oil business lines and less exposure to regions of volatile precipitation. LSIP's even older tree age might compromise future outputs if the replanting pace is not picked up by the company. Risks to our call include: 1) lower than expected output to cap firms' revenue potential, 2) preference towards alternative edible oils on portended ample supply, 3) escalation of geopolitical disruptions on the agricultural supply chain.

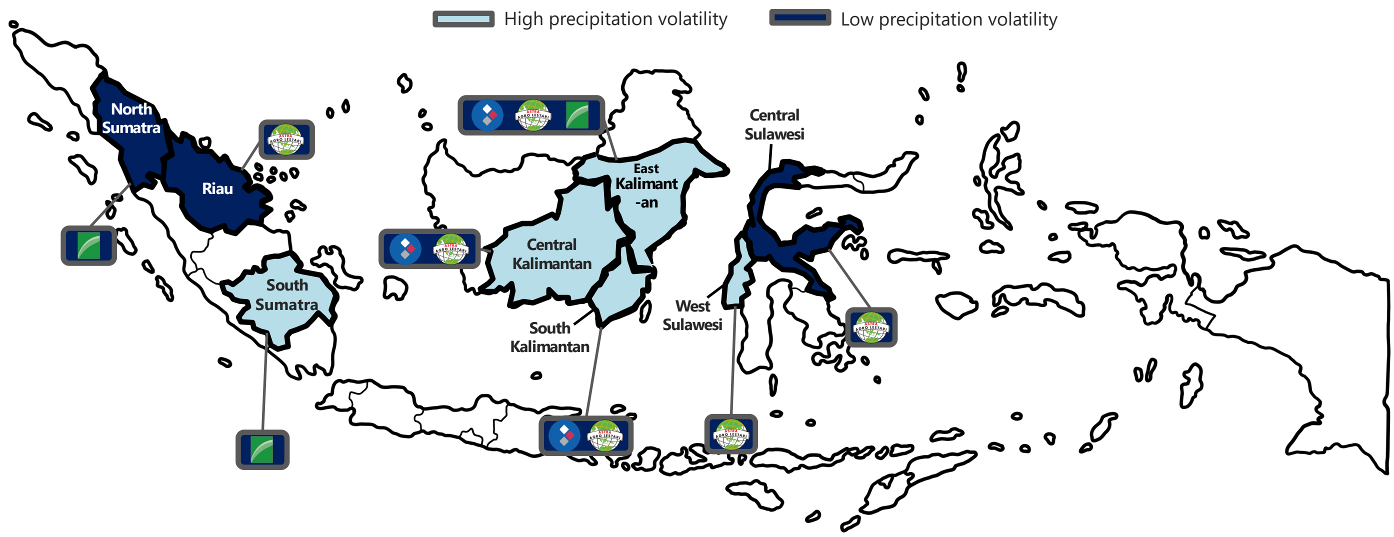
Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
AALI IJ	13.5	12.8	11.0	0.7	0.7	HOLD	6,500
DSNG IJ	5.7	5.8	5.1	0.6	0.6	BUY	690
LSIP IJ	6.1	10.7	10.2	0.6	0.6	HOLD	860

Exhibit 91. The slack in FFB yields seen during the last (strong; >2.0°C in Nino-3.4) El Nino in FY15 caught on c. 1 year ahead of the event



Sources : Companies, MNCS Research

Exhibit 92. Plantation area profiling based on locations of high rainfall volatilities during strong El Nino (2015)



Sources : GCCCA, Company, MNCS Research

FFB yields have seen a steep decline of -15.4%/-34.0%/-17.1% in AALI/DSNG/LSIP's production records during FY16 as an onset of FY15's El Nino.

As can be seen, DSNG's yield was the most affected due to its plantation regions' precipitation patterns being the most volatile during El Nino conditions.

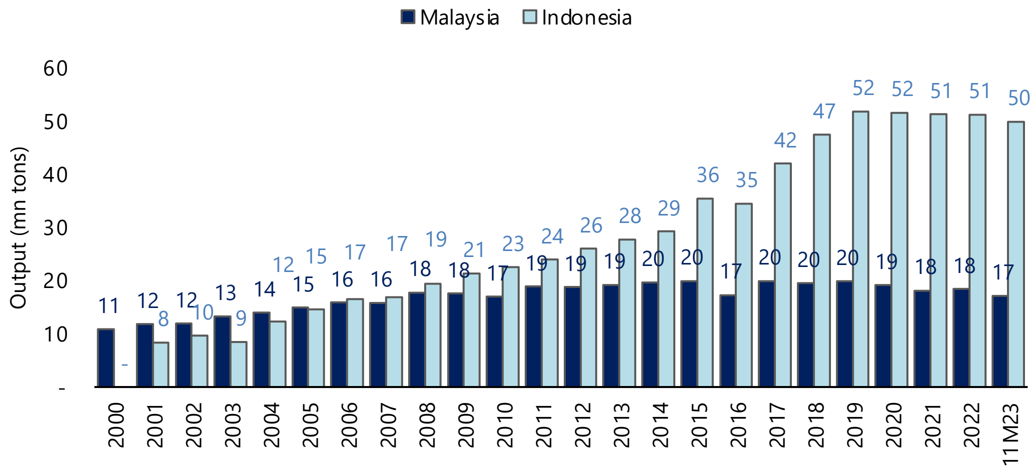
Exhibit 93. 88.7% of DSNG's plantation area is under a volatile precipitation

Company	Central Kalimantan	East Kalimantan	North Sumatra	South Sumatra	South Kalimantan	Central Sulawesi	West Sulawesi	Others	Total Nucleus Area (000 ha)	Volatile Area (%)
AALI	**23.40%**	**19.60%**	-	**-**	11.80%	7.80%	**10.6%**	26.8%	214.8	53.6%
DSNG	**14.20%**	**74.50%**	-	**-**	-	-	**-**	11.3%	111.2	88.7%
LSIP	**-**	**15.40%**	32.80%	**44.00%**	-	-	**-**	7.8%	84.6	59.4%

Sources : GCCCA, Company, MNCS Research

The 2015-2016, categorically strong El Nino has subdued CPO production of the two largest players in the world. Factoring in more potentially volatile weather patterns, declining tree age with suboptimal replanting and an increasing possibility of more than a moderate El Nino in Jan-Mar, 2024, we are likely to see production decline in FY24F.

Exhibit 94. Output took a -13.2%/-2.7% YoY beating in Malaysia/Indonesia during the 2015-2016 El Nino

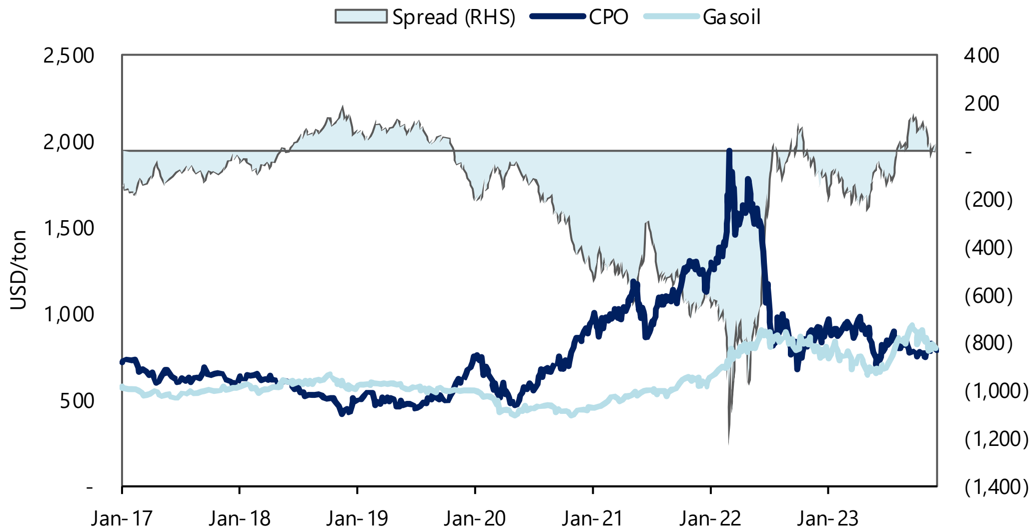


Sources : GAPKI, MPOB, MNCS

POGO spread has been at accommodative levels since Aug-23 for the production of palm-oil based biodiesel. The spread looks set to narrow even more as sluggish crude demand outlook dragged prices down.

POGO spread could remain positive in 1H24, but if CPO picks up in 2H24 we might see a POGO reversal and more intensive levy regulations put in place to subsidize domestic biodiesel production.

Exhibit 95. Palm oil – Gas oil spread likely to stay positive on dwindling crude demand



Sources : Bloomberg, MNCS

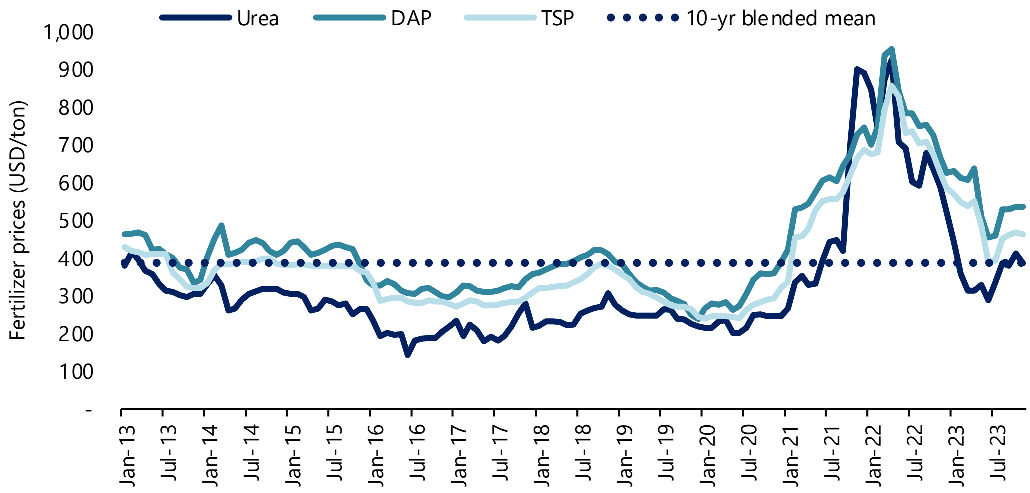
Biodiesel will be a strong demand driver for CPO in FY24F and beyond. It has grown at a CAGR of 74.7%% throughout FY12 – FY22, and is expected to grow at a CAGR of 15.6% throughout FY22 – FY25F.

Exhibit 96. Biodiesel production will be a significant driver of CPO demand going ahead

Sources : MoEMR, USDA, MNCS

We view DSNG to be most positively impacted from the shift in fertilizer's price, as the company had stocked up most of their FY23E's inventory at high FY22 prices.

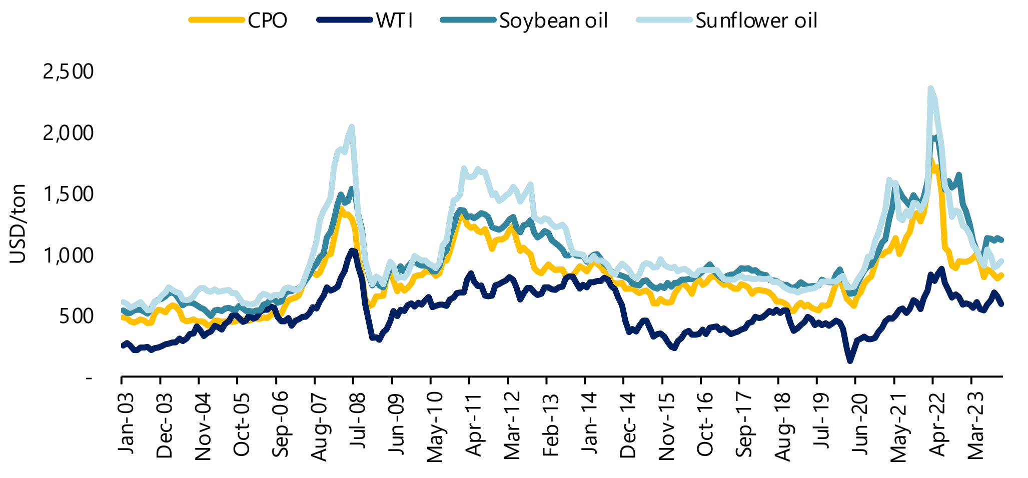
Exhibit 97. Fertilizer prices have declined from its FY22 highs approaching its 10-yr mean levels, leaving room for margin expansions



Sources : WB, MNCS

CPO is still trading at an attractive discount compared to alternative edible oils. The spread is poised to narrow, however, as CPO output declines and soy output climbs. The upside to CPO prices could also be cancelled if WTI remainds subdued or experiences a stronger decline.

Exhibit 98. Strong correlations between crude and edible oils over the years



Sources : Bloomberg, WB, MNCS

Property
Overweight

Time for the long-awaited upswing

Firm demand will help to support higher prices amid limited supply expansion

Residential: The government has officially announced the extension of their value added tax incentive program (PPN DTP), which entails that value added tax (VAT) is completely (100%) burdened to the state for home purchases up to IDR2bn. For home purchases up to IDR5bn the VAT incentive will still be given, but to the limit of IDR2bn purchases. The implementation will be done through two phases; the first spans from Nov-23 to Jun-24 and disburses a 100% VAT incentive, whereas the second phase, spanning from Jul-24 to Dec-24, disburses a 50% VAT incentive. This policy targets the >IDR500mn income segment to lay their money on properties; potentially benefitting, in our view, the property players that offers the price range of IDR1bn-IDR5bn (BSDE, CTRA, PWON, SMRA). The incentive should cushion the effects of higher-for-longer interest rates conditions that appears to persist into FY24F. We anticipate that at the very least FY24F's marketing sales could, as a result, match that of FY23E. We also expect some risks in the form of curbed sales performance in 1H24 due to: 1) general elections (Feb-24) and 2) Eid Al-Fitr (Apr-24), as well as the lingering hawkish sentiment that might persist into FY24F. Moreover, after global central banks turn dovish, rate sensitive stocks such as they top four property developers should benefit.

Hotel: Going into FY24F, the hotel industry's performance is expected to recover by 2Q24. This is due to the seasonal slowdown at the start of the year, especially ahead of the elections. The lining up of presidential candidates as well as speculations on their policy stances feeds the wait-and-see sentiment of market participants. What this entails is that if the electoral proceeding necessitates a second round, the recovery arc of the hotel business might get delayed. Aside from that, the festive season of Ramadan and Eid Al-Fitr holidays which falls into 1Q24 is portended to mute down business activities. On the brighter side, occupancy rates look set to outstrip the pre-pandemic levels, foretold from the rebounding trend throughout FY22 – 8M23. Moreover, developers' confidence in raising the room rates, far from the discount-frenzy that took place in 2022, is a telltale sign that demand for hotels are solid.

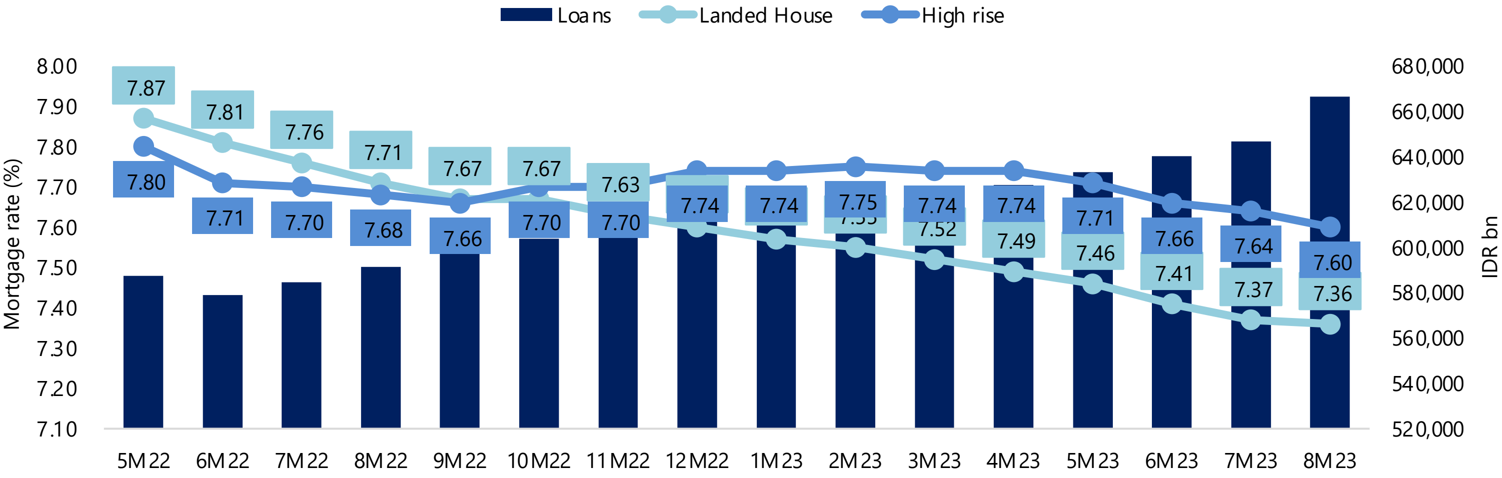
Shopping Mall: The narration that the economy is on-track to recovery, coupled with a limited supply of new malls and the hiking number of visitors put the occupancy rate at 72.8% and 70.4% in Jakarta and Greater Jakarta region, respectively. There haven't been any new mall additions, hence a flat rent rate in Jakarta, levelled at IDR563k per sqm. Service fees also remained at stable levels in Jakarta and the Greater Jakarta region, hovering at IDR153k and IDR119k per sqm. EV recharging stations are becoming more prevalent in the malls, as well as the improved accessibility by public transport enabling higher visitor traffic. This is well reflected from the occupancy rate in the mid-upper and premium segment regions in Jakarta that have reached occupancy rates of 84.6% and 86.2% in 3Q23. However, the Greater Jakarta region of Bekasi and Tangerang, the occupancy remains a tad behind at 73.7% and 70.1% in 3Q23.

Overweight Recommendation for the Property Sector

We give a **Overweight** rating for the property sector. The valuation is based on an average NAV discount ~55%-70%. **BSDE, CTRA and SMRA** are our top picks, as they will benefit from the incentive program due to its high product mix <IDR5bn per unit. The hawkish narrative is also another factor to drag on properties, expected to persist into 1H24, as 70% of home purchases are derived from mortgages. Aside from that, the election period, as has been shown historically, is also poised to hamper property sales performance.

Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
BSDE IJ	22.0	8.6	7.5	0.6	0.5	BUY	1,400
CTRA IJ	20.7	9.8	8.3	1.0	0.9	BUY	1,300
SMRA IJ	9.7	14.4	11.8	1.1	1.0	BUY	945
PWON IJ	20.1	12.9	11.4	1.2	1.1	BUY	585

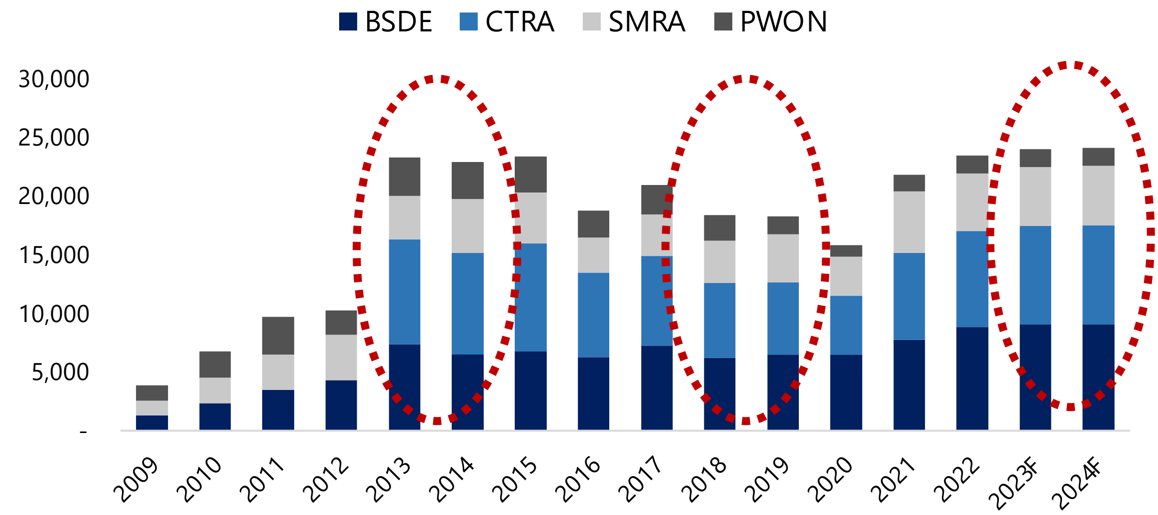
Exhibit 99. The trend of mortgage distribution and mortgage rate



Sources : OJK, MNCS

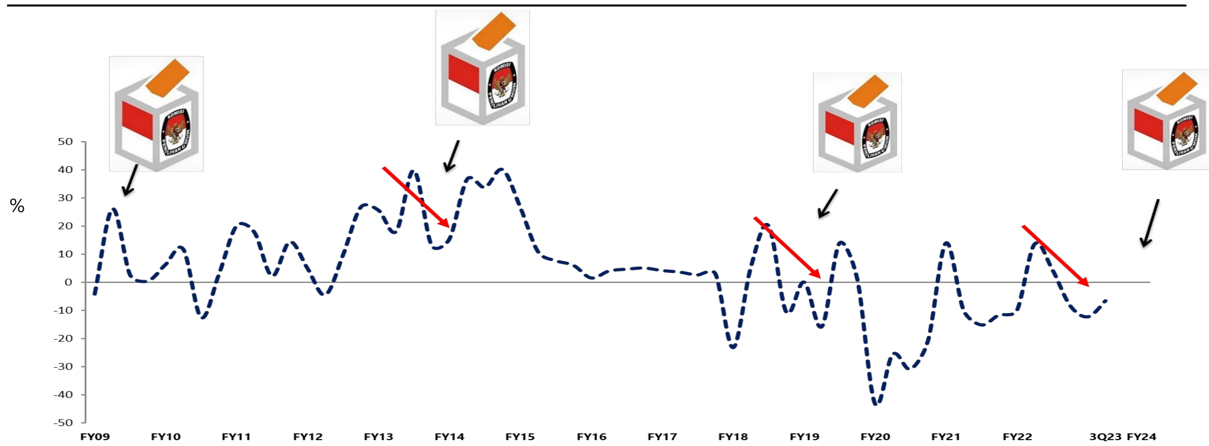
Exhibit 100. Trend of marketing sales in FY12-FY24F (in IDR bn)

We still view that customers will hold-off from purchasing upon entering the political year. Hence, we expect moderate marketing sales in FY24F



Sources : Companies, MNCS

Exhibit 101. The trend of sales volume property in FY09-3Q23



Historically, sales volume experienced stunted growth upon entering the political years as seen during the 2013-2014 and 2018-2019 periods.

Sources : BI, MNCS

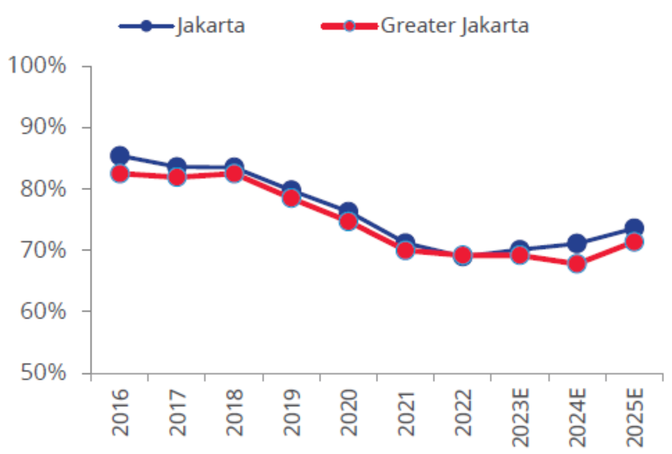
Exhibit 102. The trend retail performance in 4Q22-3Q23

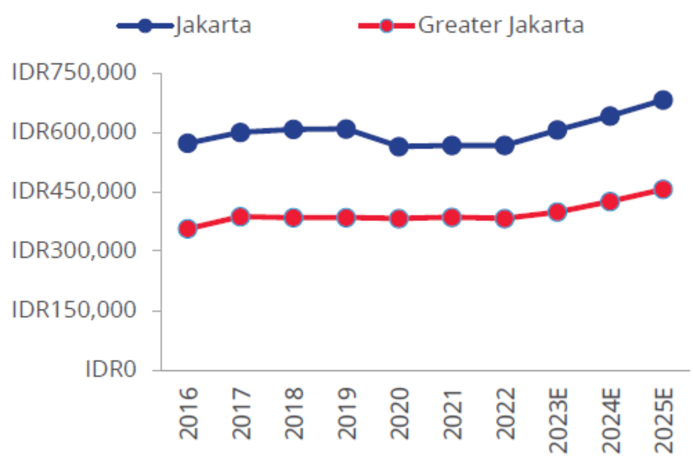
Retail Performance	Occupancy			Base rent*			Service charge*		
	4Q22	2Q23	3Q23	4Q22	2Q23	3Q23	4Q22	2Q23	3Q23
Jakarta									
premium	84.5%	86.2%	86.2%	1,133,062	1,133,062	1,133,062	231,500	243,261	243,261
Middle-upper	78.3%	84.6%	84.6%	800,740	800,369	800,369	166,985	178,645	178,645
Middle	65.9%	68.6%	69.3%	385,200	382,282	382,282	136,448	135,414	135,414
Middle-lower	48.9%	50.0%	49.6%	262,906	260,669	260,669	107,388	107,200	107,200
Average	**69.0%**	**72.5%**	**72.8%**						
Greater Jakarta									
Bogor	68.3%	66.5%	66.2%	358,107	361,551	361,551	125,245	127,281	127,281
Depok	66.1%	69.7%	69.7%	368,928	368,928	368,928	104,105	104,997	104,997
Tangerang	68.9%	69.0%	70.1%	399,346	399,009	399,009	124,687	125,978	125,978
Bekasi	71.8%	75.6%	73.7%	383,812	383,812	383,812	115,450	113,823	113,823
Average	**69.2%**	**70.6%**	**70.4%**						

) IDR/sqm/month

Sources : Colliers, MNCS

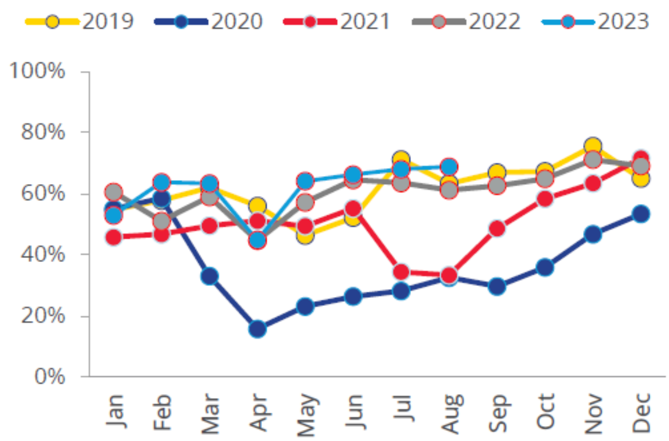
Exhibit 103. Trend of Monthly average occupancy rate (AOR) and asking base rent (per sqm) retail segment in FY16-FY25F

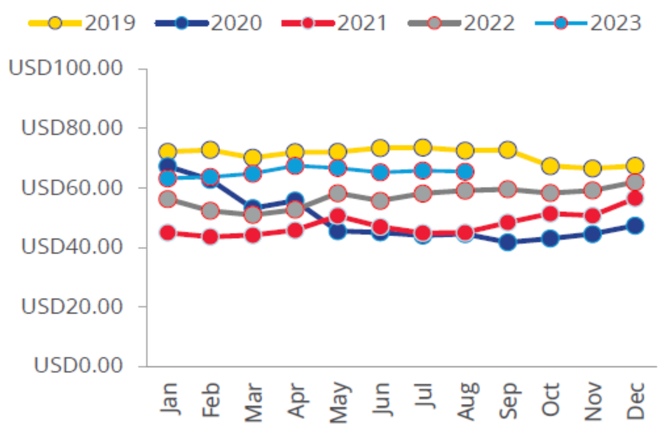




Sources : Colliers, MNCS

Exhibit 104. Trend of Monthly average occupancy rate (AOR) and Monthly average room rate (ARR) hotel segment in FY19-8M23





Sources : Colliers, MNCS

Telco
Overweight

Strategic Corporate Actions Boom

Analog Switch Off (ASO) Leading to Another Milestone for 5G

As of Jun-23, the Analog Switch Off (ASO) program has been successfully implemented across a total of 137 broadcasting zones in Indonesia. Notably, urban areas like Medan city in North Sumatra and Makassar in South Sulawesi are also expected to be the upcoming target areas of this program. The completion of this transition has freed up the 700 MHz frequency spectrum (low band), rendering it available for the deployment of 5G technology. The Ministry of Communication and Informatics (Kominfo) has affirmed that both this spectrum and the 26 GHz (mid band) or millimeter-wave spectrum are now poised for auction. Industry experts project these auctions to transpire in FY24, presenting a significant opportunity for stakeholders to expedite the expansion of 5G networks. As of Nov-23, 5G network services can only be accessed in by only 15% of the population. Thus, this strategic move aims to cover more areas across the nation and meet the escalating market demand for faster, more dependable internet connectivity, all while maintaining competitive pricing structures. While Telkom has not affirmed their enthusiasm, XL Axiata has been preparing to win the auction with undisclosed strategy.

Unlocking Value of Telkom's NeutraDC

Market demand of data center services seems to be accelerating from 98 MW in FY22 to 1,256 MW in FY31F at 33% CAGR along with Indonesia digital economy ecosystem. Conceive to be 40% contributor to digital economy of Southeast Asia (SEA) by FY25F, Indonesia currently has the fastest growing e-commerce market with internet users 76.28% of population which become the growth driver of data center market. SEA digital economy is forecasted to reach USD365 bn by FY25F at 20% CAGR. Telkom Group will not let this enticing prospect slides away. Through its subsidiary, NeutraDC, Telkom has been the pioneer in data center business in Indonesia and currently owns 30 facilities with 69 MW capacity and then targeting 400 MW in FY30. To approach this target, Telkom Group strategically plans to establish a Hyperscale Data Centre (HDC) in Batam, increasing their initial capacity from 17 to 51 MW IT load in FY25. This HDC will be additional to their current hyper facilities in Cikarang and Singapore (Telin-3). Telkom management has then exposed the potential to raise NeutraDC's capital with possibilities of IPO or private placement in FY24, preparing it to be one of the group's growth drivers in the future. With robust profitability of IDR248bn revenue and IDR59bn EBITDA (24% EBITDA margin) in the first half of FY23, NeutraDC is aiming to hit IDR505bn revenue (+166% YoY) and IDR61bn EBITDA (+221% YoY) by the end of this year.

XL x Smartfren, Paving a Way for Trifecta

Been the ongoing narrative since FY21, the news of a merger between XL Axiata (EXCL) and Smartfren (FREN) are getting more grounded recently, as management from both parties have engaged in discussions regarding the merging potential. As of now, Indonesia's telecommunications landscape features four major cellular operators: Telkomsel, Indosat Ooredoo Hutchison (a result of the merger between Indosat Ooredoo and Tri Hutchison), XL Axiata, and Smartfren. The proposal is in line with the strategic objective set by the Minister of Communication and Informatics (Menkominfo) to cultivate a more advantageous competitive environment in the telecommunications industry by deliberately uniting and reducing the major players to three. The envisioned merger holds heaps of mutual competitive benefits for both XL Axiata and Smartfren. Referring to the performance of 9M23, total subscribers of this collaboration will add up to 93.7mn, allowing it to have comparable competition with Indosat Ooredoo Hutchison (99.4mn) and Telkomsel (158.3mn subscribers). In addition, a combination will become an alternative solution for both companies to hold a total of 34% spectrum market share compared to 37% by Telkomsel and 30% by Indosat Ooredoo Hutchison.

Visualizing the Industry Players

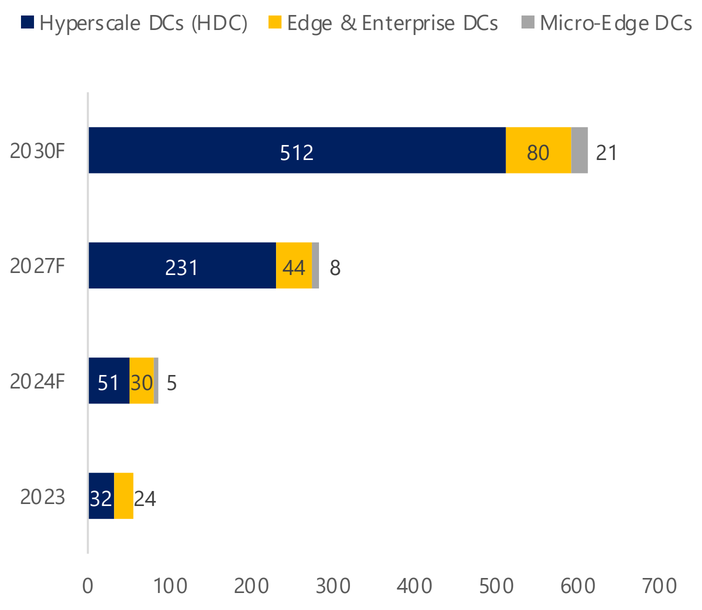
- **TLKM IJ**: With +11.4% growth of ARPU mobile 9M23 YoY and the focus of market penetration of Telkomsel’s convergent services, we estimate TLKM’s revenue in FY23E will increase +4.4% and continue to grow +5.6% in FY24F with 5.4x EV/EBITDA.
- **EXCL IJ**: Since the start of FY23, EXCL has significantly converge their subscribers and increased their ARPU to IDR42k. This leads to estimated growth +13.9% of EBITDA for FY23E. Additionally, with the prospect of upcoming merger plan, EXCL seems to have escalating business growth. Hence, we project EXCL with revenue of +8.9% and 4.8x EV/EBITDA and for the next year.

OVERWEIGHT Recommendation for the Telecommunication Sector

We maintain our **Overweight** rating on the telecommunication sector as it still holds large opportunity to create substantial development in Indonesia. We expect the industry players to succeed the convergence service market penetration next year and followed by 5G rollouts going forward. Our top picks are: 1) TLKM IJ (BUY; TP: IDR4,650); 2) EXCL IJ (BUY; TP: IDR2,700). Downside risks include: 1) competition for price between telecommunication operators; 2) changes in regulatory which allows international companies to serve BTC.

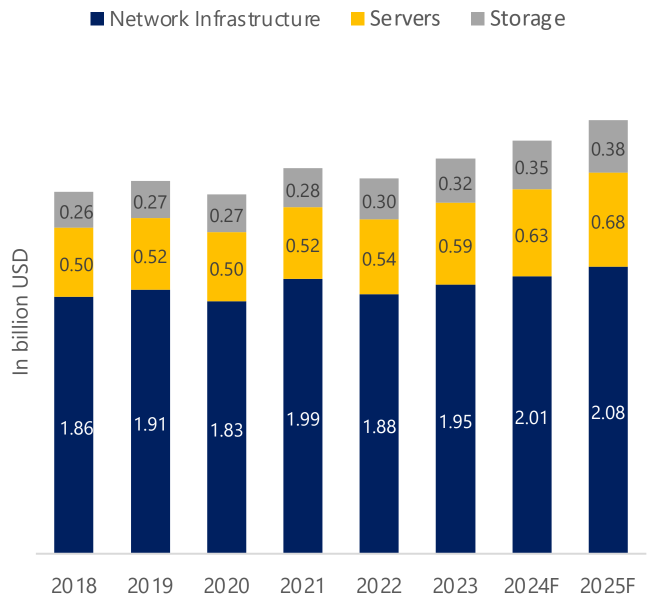
Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
TLKM IJ	393.28	15.26	14.30	3.06	2.72	BUY	4,650
EXCL IJ	24.88	16.69	14.53	0.94	0.91	BUY	2,700

Exhibit 105. NeutraDC's Cummulative IT Load Capacity Plan (in MW)



Sources : NeuraDC's Investor Day, MNCS Research

Exhibit 106. Data Centre Market Revenue in Indonesia by Segment

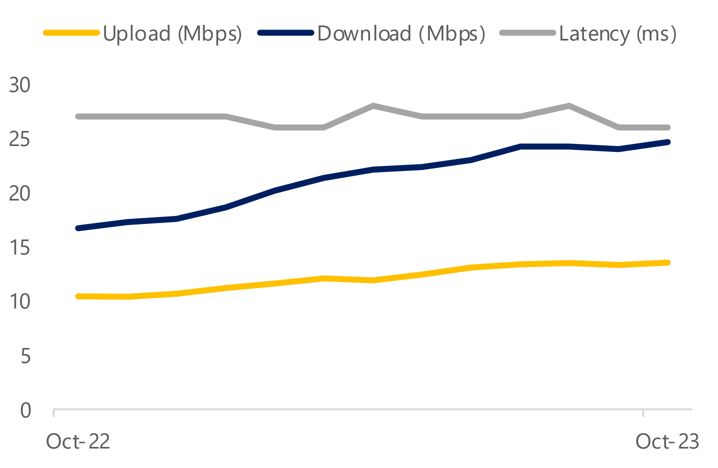


Sources : Statista, MNCS Research

Exhibit 107. 5G Rollouts Map in Indonesia

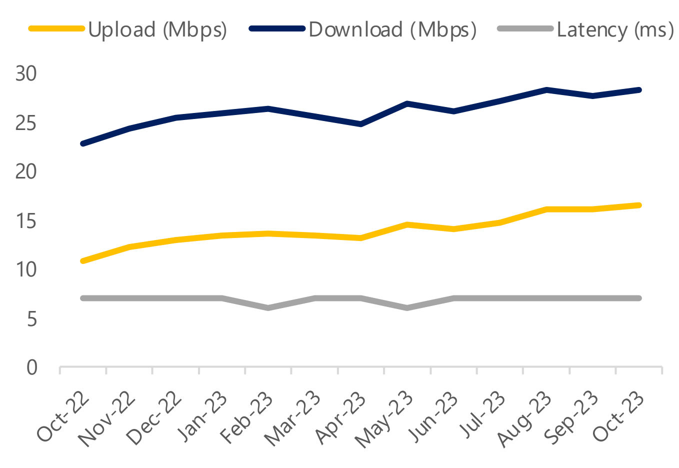
Sources : Ookla, MNCS Research

Exhibit 108. Indonesia Median Country Speeds- Mobile Broadband, ranked 95th globally as of October 2023



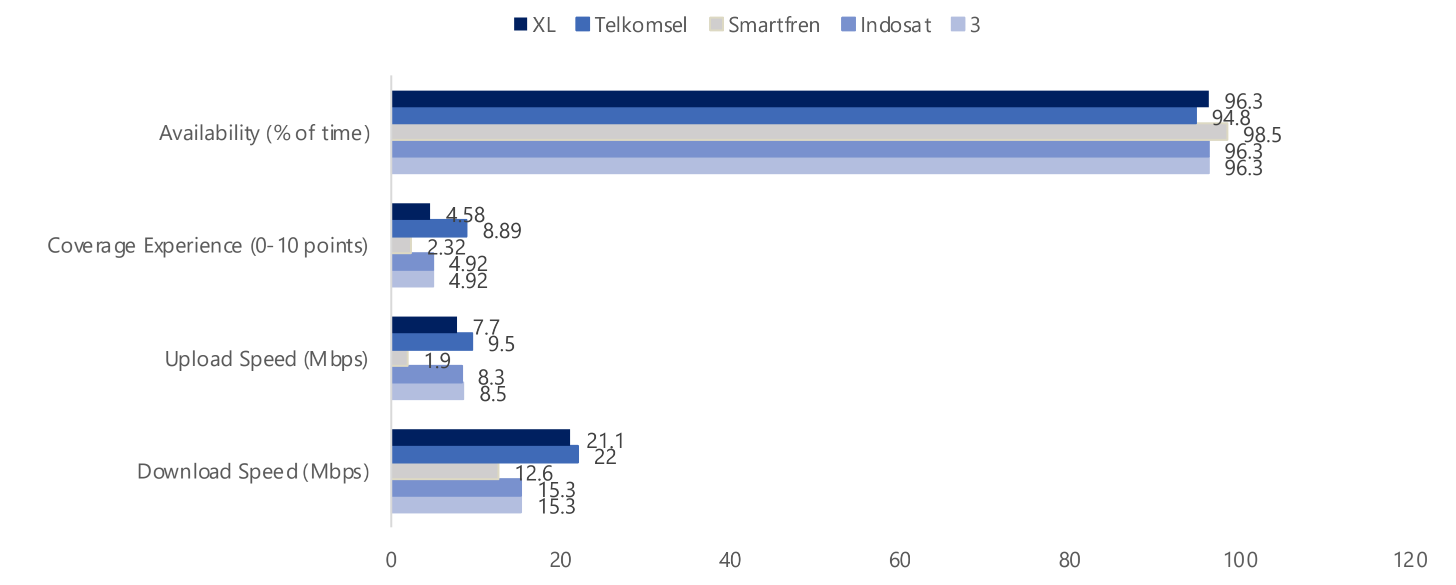
Sources : Speedtest, MNCS Research

Exhibit 109. Indonesia Median Country Speeds- Fixed Broadband, ranked 124th globally as of October 2023



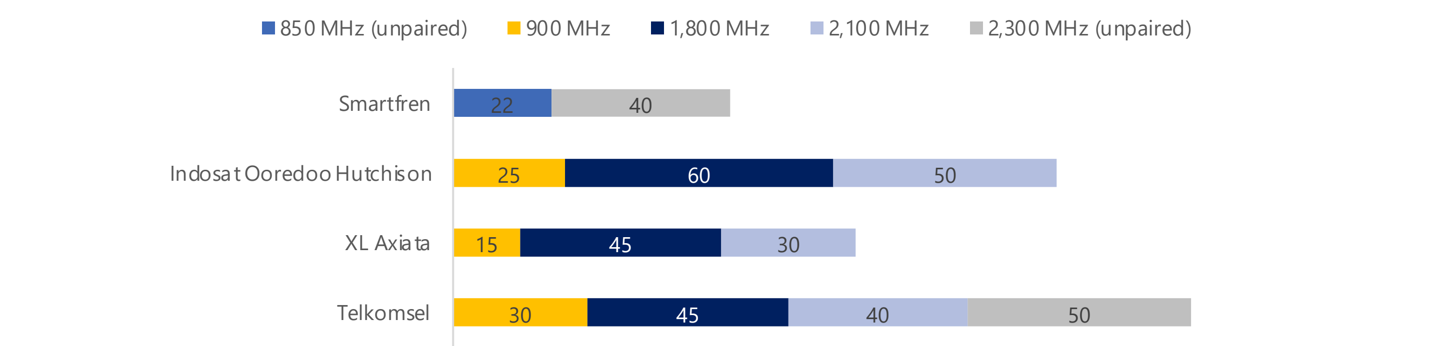
Sources : Speedtest, MNCS Research

Exhibit 110. Mobile Network Experience Report June 2023



Sources : Opensignal Limited, MNCS Research

Exhibit 111. Broadband Spectrum Holding as per 2023 (MHz)



Sources : Companies, MNCS Research

Primbon Index

Key takeaways from our Primbon Index

About Primbon Index

We have constructed Primbon Index since 2018 in collaboration with Dr. Darmoko, S.S., M.Hum expert on Javanese Literature. The word “Primbon” rooted from Traditional Javanese Calendar System. Our methodologies employed two approach by combining Elliott Wave technical analysis and Javanese Calendar System provided by Dr. Darmoko, S.S., M.Hum. Since its inception 4 years ago, we observed that Primbon Index continuously showing an in line movement with JCI performance. Primbon Index depicts our monthly forecast for JCI swing movement considering several factors including historical seasonality as well as selected market and economic data that may affect market performance globally.

JCI on Bullish Trend

According to our Primbon 2023, Santa Claus Rally and Window Dressing occurred at the end of 2023. Currently, JCI is in its long-term bullish phase and remains sustain for growth in 2024. We anticipate a potential of correction in Jan- Mar 2024, followed by rebound and restrengthening in 2Q24-3Q24. However, be aware for a correction potential in Aug- Oct 2024. We projected JCI to rebound by the end of 2024. In this analysis, we put attention to 3 things: 1) China & Indonesia GDP; 2) Global Index (MSCI & FTSE) evaluation and 3) Monetary policy from the Fed and domestic central bank.

Exhibit 112. Our Primbon Index that depict monthly JCI movement for 2024

Source : MNCS

MNCS Universe 2024

Code	Mkt Cap (Rp bn)	Index Weight (%)	Rating	Price Target (Rp)	EPS (Rp)			Book Value/share		
					FY23E	FY24F	FY25F	FY23E	FY24F	FY25F
Automotive										
ASII IJ	227,720	3.5	BUY	6,700	835	838	892	6,479	7,066	7,622
AUTO IJ	11,326	0.1	BUY	3,500	312	346	369	2,895	3,102	3,290
Banking										
BBCA IJ	1,155,704	9.0	BUY	10,600	375	422	474	1,955	2,265	2,549
BBNI IJ	199,541	2.7	BUY	5,900	553	615	670	4,016	4,382	4,745
BBRI IJ	848,730	9.0	BUY	6,600	469	524	609	2,549	2,625	2,797
BMRI IJ	569,333	7.7	BUY	6,850	575	660	783	2,995	3,260	3,577
BRIS IJ	83,033	0.3	BUY	2,100	119	135	159	836	953	1,065
Telco										
TLKM IJ	393,277	6.4	BUY	4,650	260	278	289	1,295	1,457	1,624
EXCL IJ	26,782	0.3	BUY	2,700	114	133	177	2,045	2,125	2,239
MTEL IJ	56,398	0.3	BUY	960	21	24	25	409	428	452
TOWR IJ	51,780	0.7	BUY	1,200	64	69	71	315	349	385
TBIG IJ	48,259	0.2	BUY	2,580	71	74	73	539	575	610
Technology										
GOTO IJ	105,724	2.6	BUY	102	(13)	(8)	(4)	98	95	100
Toll Road & Utilities										
JSMR IJ	35,056	0.4	BUY	5,300	441	516	556	3,883	4,322	4,795
PGAS IJ	27,635	0.4	HOLD	1,200	142	157	172	2,314	2,461	2,616
MEDC IJ	28,907	0.2	BUY	2,000	155	232	206	1,240	1,479	1,689
Consumer										
UNVR IJ	135,051	0.7	HOLD	3,650	136	137	157	100	93	100
ICBP IJ	124,491	0.8	BUY	13,100	796	837	890	5,510	6,025	6,592
INDF IJ	56,634	1.0	BUY	7,850	1,054	1,096	1,193	6,782	7,457	8,192
SIDO IJ	15,600	0.1	HOLD	500	29	30	33	112	114	120
Healthcare										
SILO IJ	27,053	0.1	SELL	1,500	62	65	74	573	617	666
HEAL IJ	22,327	0.4	HOLD	1,630	30	38	42	255	288	318
MIKA IJ	37,468	0.4	HOLD	2,680	86	91	95	487	559	618
Retail										
ACES IJ	12,262	0.2	BUY	850	41	44	50	363	384	407
ERAA IJ	6,699	0.1	HOLD	450	50	66	72	461	510	561
MAPI IJ	31,789	0.5	BUY	2,150	118	142	144	620	705	777
RALS IJ	3,761	0.0	SELL	455	44	43	40	526	545	564
Construction										
PTPP IJ	2,778	0.0	BUY	550	89	89	109	2,481	2,557	2,673
WEGE IJ	756	0.0	BUY	100	13	26	21	275	296	313
Property										
BSDE IJ	23,183	0.3	BUY	1,400	115	132	151	1,703	1,833	1,983
PWON IJ	21,287	0.2	BUY	585	37	42	48	394	434	479
SMRA IJ	9,740	0.2	BUY	945	47	58	86	601	655	735
CTRA IJ	21,594	0.3	BUY	1,300	114	135	195	1,094	1,214	1,386
Agriculture										
AALI IJ	13,713	0.1	HOLD	6,500	552	642	595	10,468	10,831	11,553
LSIP IJ	6,106	0.1	HOLD	860	84	88	92	1,455	1,521	1,621
DSNG IJ	5,671	0.1	BUY	690	90	102	100	842	924	1,004
Coal Mining										
ADRO IJ	77,406	1.1	BUY	2,700	660	436	364	2,952	3,003	3,071
PTBA IJ	29,147	0.3	HOLD	2,500	421	381	343	2,431	2,523	2,608
ITMG IJ	29,096	0.3	HOLD	24,900	7,209	4,341	3,947	28,443	28,351	27,965
Metal Mining										
ANTM IJ	40,972	0.5	BUY	2,080	141	142	146	1,133	1,313	1,497
INCO IJ	44,018	0.3	BUY	5,500	345	345	382	4,019	4,363	4,745
MDKA IJ	64,858	1.0	BUY	3,030	0	57	83	643	784	964
Poultry										
CPIN IJ	81,662	1.0	BUY	5,600	184	198	208	1,728	1,837	1,947
JPFA IJ	13,603	0.2	BUY	1,400	122	158	184	1,249	1,354	1,474
Cigarette										
GGRM IJ	40,791	0.2	BUY	31,000	3,121	3,290	3,389	31,990	32,980	34,069
HMSP IJ	104,105	0.3	BUY	1,250	69	76	83	251	248	246
Cement										
INTP IJ	34,327	0.5	BUY	10,400	544	573	610	5,261	5,891	5,708
SMGR IJ	43,716	0.7	BUY	7,850	390	415	452	6,853	7,130	7,635
Basic Industry and Chemical										
ARNA IJ	4,882	0.1	BUY	900	61	66	79	255	286	325
AKRA IJ	30,512	0.4	BUY	1,700	129	139	146	716	769	825
UNTR IJ	86,912	1.1	HOLD	25,450	5,038	4,205	3,758	19,916	20,483	21,981
PGEO IJ	53,608	0.2	BUY	1,830	57	49	57	516	555	601
HRTA IJ	1,630	0.0	BUY	560	338	432	488	430	503	586

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MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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