

December 7, 2022



Research Center

Morning KISI/

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Equity Strategy Shifting gears

December 5, 2022

Commodity exports to remain solid entering 2023

The Fed's tightening to tame inflation and strong USD is worrisome, as it normally takes around one year for monetary action to affect the real economy, which means that global demand will likely recede as a whole in 2023. Indonesia's commodity exports started to flourish starting mid-2021 and are still booming in the wake of Ukraine war, but the surge has recently slowed. However, as the global supply network continues to be disrupted, we believe that commodity prices (which are Indonesia's major export items) like coal, nickel, and palm oil have support against downside.

Overweight (Target: 1,370)

XKMS NAV (Dec 1): 1,281

Company	Rating	TP (IDR)
BBCA	HOLD	8,250
BBRI	BUY	5,300
TLKM	HOLD	4,900
BMRI	BUY	10,900
ASII	HOLD	6,800
BBNI	BUY	10,300
ADRO	BUY	4,250
MDKA	BUY	5,750
UNTR	BUY	41,000
KLBF	NR	
CPIN	BUY	7,000
UNVR	SELL	4,400
INDF	BUY	7,500
INKP	NR	
ICBP	BUY	11,250
TOWR	BUY	1,500
SMGR	HOLD	8,000
BRPT	NR	
INCO	BUY	8,600
ANTM	BUY	2,540
ARTO	NR	
AMRT	NR	

Flimsy ground for domestic purchasing power

Recovery in domestic consumption may hit a stumbling block entering 2023 in light of rising inflation (with Nov2022 CPI at 5.4% as increased gasoline price started to take effect and expected to peak in 1Q23), central bank's controlled tightening (175 bps tightening since late Aug2022 vs. Fed's 375 bps YTD), and not-so-aggressive government-planned spending (with fiscal deficit cap of 3% back in place starting 2023).

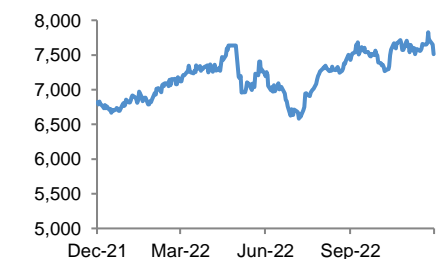
EV investment as one of key themes entering 2023

As the world's largest nickel producer (with the largest deposits) and having one of lowest labor costs for smelting & processing among the countries with large deposits, Indonesia is aiming to become a dominant manufacturing base for EVs by banning ore exports since 2020. We have seen flocks of key Asian battery manufacturers showing their intent to build battery plants in Indonesia or invest in smelter projects. However, road bumps have appeared amid US' moves to control high-flying inflation (through Inflation Reduction Act (IRA)) and build a resilient supply chain with global alliance called the Mineral Security Partnership (MSP). The pros and cons could become clearer when more crucial details of the IRA are made public.

Expect a modest EPS growth for MSCI Indonesia

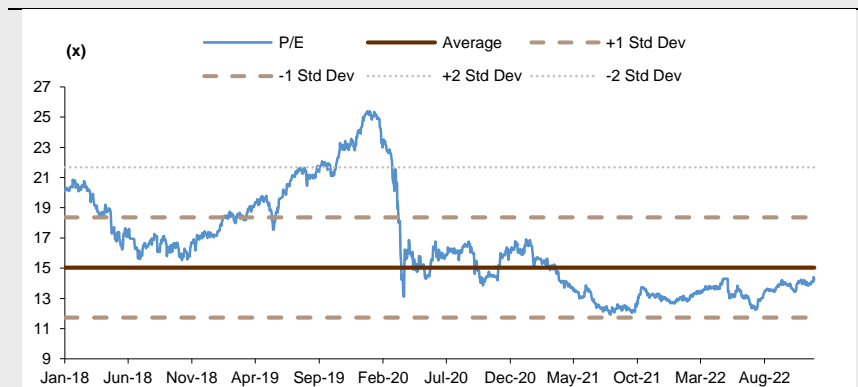
We forecast that MXID Index would rise at a slower level after FY22 earnings release for key commodity sectors' stocks such as coal and nickel. We expect ~3% EPS growth for MXID Index in FY23, driven largely by banks sector. Considering this, we believe that MXID should re-rate to its historical 5-year mean at 15x PE at 8,150. Concurrently, for KISI MSCI Indonesia ETF (XKMS) NAV, this implies an 8.5% upside to 1,250 in IDR terms at the end of 2023.

MXID Index performance



Source: Bloomberg

MXID Index PE Band



Source: Bloomberg, KISI

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Market Commentary

Market Commentary

- Ongoing uncertainty over GOTO IJ dents the broader market sentiment and heads the index toward 6800 next support level. The JCI was the worst performer in the region amid mixed sentiment with a focus on the Fed following strong US data and an easing of Covid policy in China.
- JCI was under pressure since the opening, as a steep drop in TLKM IJ and GOTO IJ dented the sentiment to the broader market.
- From the sectoral front, only Energy remains elevated taking relief from a gain in BYAN IJ. While Tech, Basic Materials, Property, and Tech were among the top contributors to the index decline.
- RUPIAH +0.96% at 15,618 against USD.
- TLKM -6.25% contributed most to the index decline, dropping most for the second day and sending the share to the lowest since late Nov 21, amid concern over its investment in GOTO IJ.
- GOTO -6.50% extending their downward trend as uncertainty remains over the outlook of the shares post the lock-up period. While the next support for GOTO IJ is likely at around IDR 100 as more shares were traded in the NG market at around the 90-100 level.
- SMGR -6.82% after the Co. set the right issue price at IDR 6.600/shares, a 14.3% discount from yesterday's closing.
- ARTO +2.53%, snapping its eleven-day drop, as the stock signals a technical buying at the current level.
- BYAN +7.72%, managed to jump for the third day after the stock split amid listless trades and helped to offset the index from further decline.
- Top value were: BBKA IJ -1.14%, TLKM IJ -6.25% IJ, BMRI IJ +0.23%
- Top Gainers : BYAN (+7.73%), BUKA (+3.88%), BMRI (+0.23%)
- Top Losers: LKM (-6.25%), GOTO (-6.50%), BBKA (-1.14%)

News

Macroeconomic, Sector and Corporate News

- SMGR – Plans for pre-emptive rights issue of up to 846.2mn shares (~12.5% of capital) @IDR6,600/sh. (Investor daily)
- PTBA – Expresses willingness to acquire 51% stakes for Kohong Telakon coal mine in Central Kalimantan, previously managed by Asmin Koalindo Tuhup (subsidiary of Borneo Lumbung Energi). (Investor daily)
- Bauxite – gov't signals export ban for raw bauxite as part of its downstream development to support EV battery. (Kontan)
- UNTR – Subsidiary PT Danusa Tambang Nusantara signed CSPA to acquire nickel mine & nickel smelter companies Stargate Pasific Resources (SPR) & Stargate Mineral Asia (SMA) for USD271.8mn. (Bisnis)
- ADHI – Targets 15-20% YoY new contracts growth for FY23 (from its FY22 target of IDR 23tn). (Kontan)

Outliers

Outlier Stocks

- Sharp Movers (Up) : AYLK (+34.6%), SINI (+24.7%), INDX (+17%)
- Sharp Movers (Down) : EURO (-8.2%), MINA (-7%), WOOD (-6.9%)

Mon	Tue	Wed	Thu	Fri
3	4	5	6	7
<p>Korea > Market closed (National Foundation Day) September exports and imports (announced October 1)</p> <p>US> September ISM manufacturing PMI</p> <p>China> Market closed (National Day)</p>	<p>US> August durable goods (F)</p> <p>China> Market closed (National Day)</p>	<p>OPEC+ ministerial meeting</p> <p>Korea> September CPI</p> <p>US> September ISM services PMI MBA mortgage applications</p> <p>China> Market closed (National Day)</p>	<p>US> New jobless claims</p> <p>China> Market closed (National Day)</p>	<p>US> September non-farm payrolls September jobless rate</p> <p>China> Market closed (National Day) September FX reserves</p>
10	11	12	13	14
<p>Korea> Market closed (substitute holiday for Hangul Day)</p> <p>US> Market closed (Columbus Day)</p> <p>China> September Caixin services PMI (announced October 8)</p> <p>Japan> Market closed (Sports Day)</p>	<p>OECD leading economic index</p>	<p>The OPEC Monthly Oil Market Report</p> <p>Korea> MPC meeting</p> <p>US> FOMC minutes release MBA mortgage applications September PPI</p>	<p>Korea> Stock options expiry</p> <p>US> September CPI Initial jobless claims</p>	<p>Korea> September jobless rate</p> <p>US> September retail sales October Michigan Consumer Confidence (P)</p> <p>China> September PPI September CPI September exports and imports September trade balance</p>
17	18	19	20	21
<p>US> October manufacturing index (New York)</p> <p>China> September mining and manufacturing production September retail sales September fixed asset investment 3Q22 GDP</p> <p>Japan> August mining and manufacturing production (F)</p>	<p>US> September industrial production</p>	<p>US> Fed Beige Book release MBA mortgage applications September housing starts</p> <p>Europe> September CPI (F)</p>	<p>US> Initial jobless claims September existing home sales</p> <p>China> PBOC LPR release</p>	<p>Japan> September CPI</p>
24	25	26	27	28
	<p>US> October Conference Board Consumer Expectations Index</p>	<p>US> September new home sales</p>	<p>Korea> 3Q22 GDP (A)</p> <p>US> Initial jobless claims September durable goods orders (P) 3Q22 GDP (A)</p> <p>Europe> ECB MPC meeting</p>	<p>US> September PCE October Michigan Consumer Confidence (F)</p> <p>Japan> BoJ MPC meeting</p>
31				
<p>Korea> September mining and manufacturing production</p> <p>China> October manufacturing PMI October services PMI</p> <p>Europe> October CPI (P)</p> <p>Japan> September manufacturing production (P)</p>				

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures

in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement