

Slowly Moving to Recovery

7 JULY 2020

Key Takeaways from June

- ◆ Positive economic data releases in June highlighted by an increase in Forex Reserve and a Surplus in Trade Balance.
- ◆ Bank Indonesia cut its 7-DRRR benchmark by 25 bps to 4.25% in June.
- ◆ June Inflation (0.18% vs 0.07% previous) data marked a change of trend where inflation traditionally peaked during Eid al-Fitr period.
- ◆ The JCI rose 3.19% in June with P/E Ratio still relatively undemanding at 15.72x
- ◆ Finance Sector was the biggest gainer in the month (10.09%), followed by Agriculture (6.49%). While Basic Industry had the worst performing month (-3.23%)
- ◆ Foreign Investors continued to pull out of the stock market in June with Net Sell of IDR 4.54 Bn (all market).
- ◆ Foreign Ownership in stock market declined to 49.85% from 51.85% at the start of the year.
- ◆ BBCA topped the net foreign purchase by far with IDR 1.983 Bn. While TLKM had the biggest sell-off by foreigners with IDR 2.918 Bn.

Looking Ahead

- ◆ 2Q20 GDP projected to contract by 3.1%, which would mark the worst quarter since 1998 financial crisis.
- ◆ Q2 Earnings expected to hit bottom, with some of the most impacted sectors include: Transportation, Basic Industry, Retail Trade, Property, and Automotive.
- ◆ More room for Central Bank to cut benchmark rate later in the year as YoY inflation projected to fall on the lower range of BI's target of 3% (+/- 1%).
- ◆ The disbursements of funds under the government's National Economic Recovery program will play key roles to boost economic activities entering 3Q20. Disbursements of Health-related stimulus are still alarmingly low at under 2%.
- ◆ New Covid-19 cases are yet to show signs of slowing down. The inability to control the virus spread will continue to cast serious doubts over fast recovery.

On our Watchlist

- ◆ Strong Performances amidst Earnings Pressure
KLBF, TLKM, LSIP.
- ◆ Big Caps with Attractive Valuation
GGRM, UNTR, BBNI
- ◆ Second Liners with Strong Balance Sheet
RALS, DMAS
- ◆ Opportunities Around Corporate Actions in July
UNVR, INTIP

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JCI as of 30 June 2020

Close	4,905
Monthly Change (%)	3.19%
PER	15.72x
Market Cap.	5.695 Tn
Monthly Foreign Transaction	(4.54 Bn)

JCI Movement (YTD)



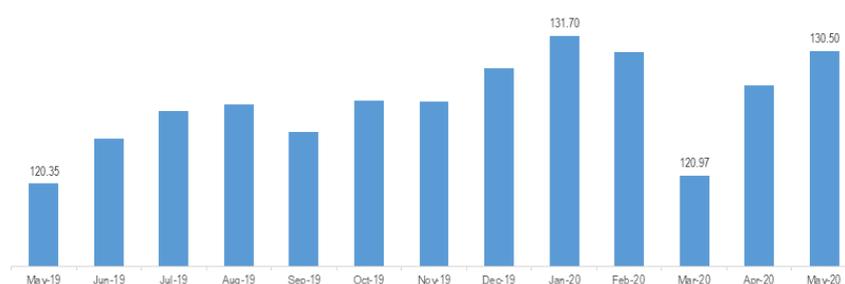
Indonesia Macroeconomic Data

Quarterly Indicators	Last	Prev.
Real GDP	2.97%	4.97%
Current Acc (USD bn)	(3.92)	(8.08)
FDI (USD bn)	4.51	4.60
Cons. Confidence*	77.80	84.80
BI-7 Day Rev Repo Rate	4.25%	4.50%
FX Reserve (USD bn)	130.50	127.88
Trade Balance (USD bn)	2.09	(0.34)
Inflation YoY	1.96%	2.19%

Improving Macroeconomic Signs

Some of the economic data releases in June 2020 has shown slight improvements such as Forex Reserve which currently stood at USD 130.50 Bn (up from USD 127.88 Bn in previous month) and Trade Balance which recorded a May Surplus of USD 2.09 Bn (up from a deficit of USD 0.34 Bn). These have led the Central Bank to cut its 7-DRRR benchmark by 25 bps to 4.25% in June. Monthly Inflation data also shown a slight increase for June 2020 which came in at 0.18% MoM or up from 0.07% MoM the previous month. This marked an anomaly in trend where usually inflation would reach its peak during Ramadhan-Eid Fitri period.

Figure 1: Indonesia Foreign Exchange Reserves (Bn USD)



Sources: Bloomberg, NHKSI Research

JCI Valuation Priced-In for Sluggish Earnings at Near -2 SD

The JCI ended the month of June at 4,905 or up 3.19% from May 2020 close at 4,753. At that point, JCI P/E Ratio stood at 15.72x or still hovered at slightly above -2 SD of its 5-year mean. The valuation indicates that investors have priced-in sluggish earning reports expected in 2Q20. The Finance sector led the price movement in June with a 10.09% gain partly due to the positive sentiment from fund placement by the government. This was followed by Agriculture which had an 6.49% increase. The biggest loser for the month was Basic Industry with a -3.23% correction.

Figure 2: JCI 5-Year P/E Band

Sector	29 May 2020	30 June 2020	Chg. (%)
Consumer Goods	1.806.725	1.800.897	-0.32%
Mining	1.238.201	1.223.952	-1.15%
Finance	962.515	1.059.593	10.09%
Agriculture	964.931	1.027.523	6.49%
Infrastructure, Utilities, &	864.084	883.179	2.21%
Miscellaneous Industry	858.396	867.124	1.02%
Basic Industry	745.733	721.665	-3.23%
Trade, Services, & Investment	606.633	606.136	-0.08%
Construction, Property, & Real	322.957	322.04	-0.28%

Source: Bloomberg

Figure 3: Sectoral Movement in June

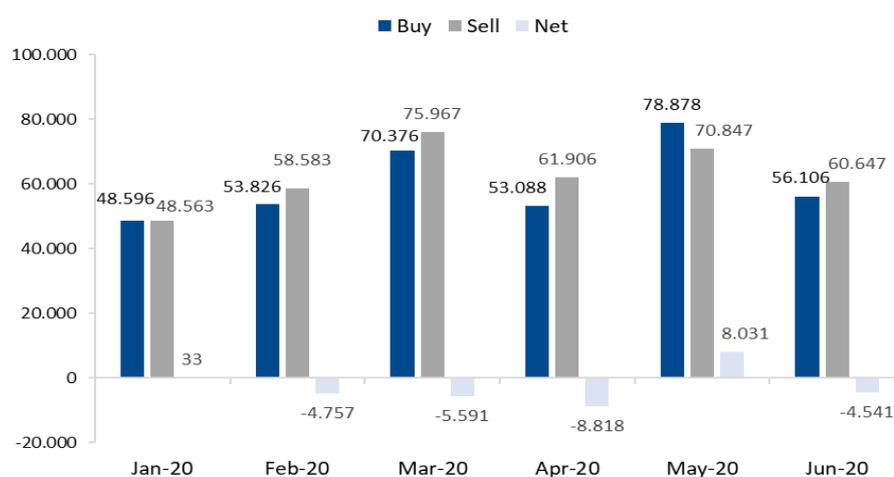


Source: Bloomberg

Foreign Outflow Continues as Ownership Shrinks

Foreign Investors continued to pull money out of the stock market in June with a Net Foreign Sell of IDR 4.54 Tn. Adding this for the year, foreign investors have booked a net sell amounting to IDR 15.63 Tn in 2020. At the end of 2Q20, the foreign ownership percentage in the stock market has been reduced to 49.85%, from 51.85% at the beginning of the year. BBCA topped the list of net foreign buy in June 2020 with IDR 1.983 Tn, showing a high expectation to remain as the strongest performing bank during the pandemic era. Meanwhile the SOE telecommunication giant TLKM had the most sell-off by foreigners with - IDR 2.918 Tn. The company had major changes in management and announced a dividend payment at its AGM on 19 June 2020.

Figure 4: Monthly Foreign Transactions



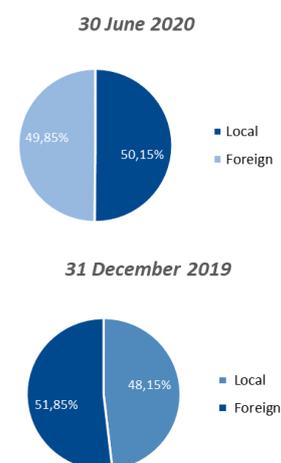
Sources: IDX Statistic, NHKSI Research

Figure 5: Top 10 NFB and NFS in June

Net Foreign Buy		Net Foreign Sell	
Stock	Value	Stock	Value
BBCA	1,938,518	TLKM	-2,918,421
INDF	319,871	BBNI	-549,714
SMMA	301,901	BMRI	-372,814
ICBP	212,938	MNCN	-286,466
PWON	176,989	PGAS	-262,122
ASII	143,873	BBTN	-252,595
SMGR	107,479	UNVR	-251,914
INKP	54,80	TKIM.NG	-250,775
BNLI	49,831	PTBA	-235,366
SMRA	38,226	ITMG	-208,346

Sources: NHKSI Research

Figure 6: % of Foreign Ownership in Indonesian Stocks



Sources: KSEI

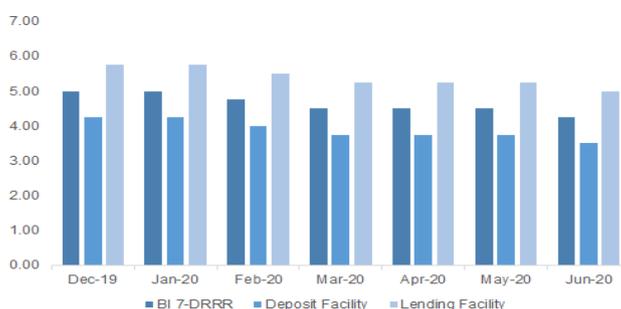
Q2 Earnings to Hit Bottom

The second quarter of 2020 marked the period where the Large Scale Social Restrictions and the overall impact of Covid-19 came into full force. The government projects that GDP for the quarter will contract by 3.1% which would mark the worst quarter since 1998 Asian Financial Crisis. With economic activities slowed down, earning projections for public listed companies are also expected to hit rock bottom. We project that EPS would fall across the board, with some of the most impacted sectors include: Transportation, Basic Industry, Retail Trade, Property, and Automotive.

Further Benchmark Rate Cut Expected

The low inflation rate lead to the belief that Bank Indonesia still has more room for a further interest rate cut later this year. As of June, YoY inflation stood at 1.96%. With the Eid al-Fitr period behind us, the annual inflation is projected to be in the lower range of BI's target of 3% (+/- 1%).

Figure 7: Key Benchmark Rates



Sources: Bloomberg, NHKSI

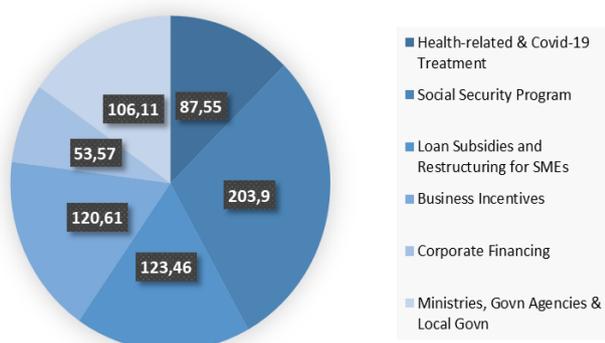
Disbursement of National Economic Recovery Fund

The government has increase the budget allocation for its National Economic Recovery program up to IDR 695.2 Trillion from the original budget of IDR 405.1 Trillion announced in May. We view that the allocation has been well spread out to minimize the social and economic impacts of the pandemic while also have a sense of balance between maintaining consumption level and the continuity of business activities. However, the impact of this program is yet to be significantly felt due to slow pace of disbursements, especially for the health sector (under 2% disbursed) and social grants. We believe that as the program goes well on its way, the road to recovery will become easier.

No Signs of COVID-19 Cases Slowing Down

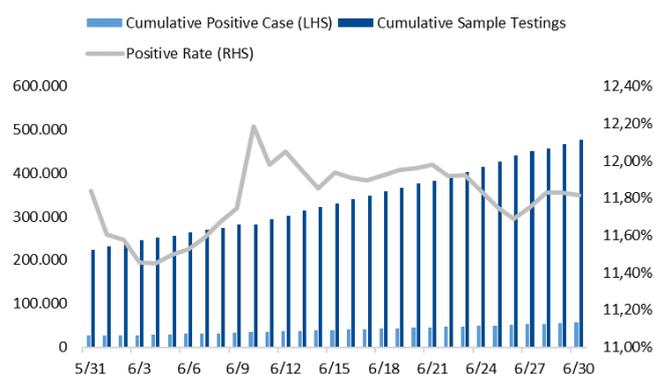
As cities across the country have started to reopen economic activities in June, the number of new positive Covid-19 cases remain persistent at more than 1,000 per day. While we note that the number of testing has also gone up, the new positive case rate is still hovers around 11% with no sign of slowing down. This is particularly alarming as it indicates that the new normal initiatives as frequently appealed by the government are yet being adopted effectively. Unlike the previous crises of 1998 and 2008, this year downturn started as a health crises. We view that without an effective treatment in addressing the Covid-19 pandemic, it would be hard for the social and economy aspects to recover.

Figure 8: National Economic Recovery Program Allocations



Sources: Ministry of Finance, NHKSI Research

Figure 9: COVID-19 in Indonesia



Sources: Ministry of Health, NHKSI Research

On our Watchlist

◆ Finding Strong Performances amidst Earnings Pressure

While EPS pressure will certainly be felt the most in 2Q20, we view that some industries would still post stronger performance relative to others. These industries include: Consumer , Telecommunication, and Plantations. KLBF remains as one of our defensive picks with an on-going Covid-19 vaccine trial as a potential upside. State-owned telco giant, TLKM, will benefit greatly from the increase in data traffic which would translate to higher ARPU. Meanwhile, we believe that higher CPO price in 2020 compared to last year give strong earnings catalyst for LSIP.

◆ Second-liners with Strong Balance Sheet

During this downturn, we also look to companies that have strong balance sheet, noted with little to no debt . While these companies are not immune to economic effects of this pandemic, their strong cash positions would translate to smoother road to recovery. RALS's strong cash position is a key factor in facing store closure during Large Scale Social Limitation period. While DMAS zero-debt means they still hold an advantage for future expansions.

◆ Big Caps with Attractive Valuations

We keep looking for values amongst big-cap stocks that have been battered in recent times. The discount in strong prices would translate to higher upside in the future. Cigarette producer GGRM has taken a hit in terms of valuation after last year's excise tax increase announcement. UNTR's Martabe gold mine provides the company with relatively stable source of revenue during economic downturn. Meanwhile, SOE-bank BBNI remained relatively undervalue as one of the biggest banks in the country.

◆ Opportunities around Corporate Actions in July

The covid-19 pandemic has forced companies to delay their AGMs. Consequently, we still have several regular dividend paying stocks that are scheduled to hold AGMs in July. While UNVR has recently run into some issues such as factory closures due to Covid-19, we believe that this will only have temporary effects. Moreover, we expect INTN to continue to pay out dividends at an attractive yield.

Figure 10: July 2020 Stock Watchlist

Stock	Market Cap (IDR Mn)	P/E (x)	P/B (x)	EPS Growth (%)	GPM (%)	NPM (%)	ROE (%)	DER (%)	Net Debt (IDR Bn)	1M Chg. (%)
KLBF	71,015,810	27.51	4.32	12.53	45.16	11.55	16.31	7.10	Net Cash	3.2
TLKM	306,102,249	16.73	2.88	-5.83	54.2	17.14	17.30	47.75	36.063	-3.2
LSIP	6,038,235	20.31	0.70	100.00	18.72	10.00	3.50	0.11	Net Cash	20.3
RALS	4,080,200	6.64	0.93	-82.88	40.78	1.45	14.39	4.04	Net Cash	4.4
DMAS	8,000,886	5.80	1.24	552.94	67.87	49.58	20.25	0.00	Net Cash	22.9
GGRM	89,999,216	8.20	1.69	3.92	18.13	8.97	21.76	9.02	1.730	-3.2
UNTR	64,344,831	6.38	1.02	-40.22	23.25	9.95	16.90	25.10	Net Cash	5.4
BBNI	85,970,306	5.52	0.79	4.11	56.5	33.07	14.09	77.32	31.126	19.6
UNVR	302,338,750	40.24	41.88	6.99	52.43	16.70	92.21	42.95	2.609	1.9
INTN	43,714,626	23.77	1.86	0.88	31.65	11.91	7.81	0.55	Net Cash	-2.5

Sources: Bloomberg

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